

مكتبات الصحف

# FINANCIAL TIMES

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Separate section

World Business Newspaper <http://www.ft.com> MONDAY OCTOBER 28 1996

## Bonn coalition strained by FDP attack on Waigel

Tensions in Germany's ruling coalition became public yesterday as high-ranking members of the Free Democratic party - junior partner in the ruling coalition - criticised finance minister Theo Waigel. They warned that the coalition was at risk if he proposed rises to cover an expected budget shortfall. Page 18

**EU set to close loophole** Brussels is set to close a value added tax loophole that has allowed non-EU telecoms companies to undercut local operators within the European Union. Page 18

**Zaire in turmoil** Half a million Hutu refugees were reported to be on the roads of Zaire, fleeing Tutsi fighters who targeted their camps on the border with Rwanda. Page 5

**Talks on 'open skies'** Top US and European Union aviation officials are due to meet in Washington this week to open talks aimed at ending restrictions on transatlantic air travel. Lex, Page 18

**Scores missing in Egyptian collapse** Two people were killed and at least 100 were missing after an 11-storey residential building collapsed in the Cairo suburb of Heliopolis. Prime minister Kamal Ganzouri said 19 survivors had been rescued.

**Six held over Irish arms find** A suspected Irish Republican Army arms cache was uncovered by police in the Irish Republic. Six men were arrested, five from Northern Ireland.

**Ambrosiano windfall** Some creditor banks of Italy's Banco Ambrosiano, which collapsed in 1982, are to get an unexpected \$65m dividend following the conclusion of legal actions. Page 3

**Family quarrel** Benjamin Netanyahu's brother-in-law accused the Israeli prime minister of creating "a national crisis" with his plans to pull Israeli troops out of Hebron. Hagai Ben-Artzi called the plan to pull out of Hebron "an act of deceit". Settlers put trust in God, Page 5

**Freed envoy kidnapped again** Yemeni tribesmen recaptured a French diplomat they had released hours earlier. The diplomat and mediators were abducted on their way back to the capital, Sanaa, from the northern region where he was held for six days.

**Drugs sales grow** World prescription drugs sales were 5 per cent higher at \$52.5bn in the year to August compared with the same period in 1995. Page 4

**Sheep flock to central Madrid**



Spanish shepherds drive thousands of sheep past the Alcalá gate in central Madrid (above) as part of a campaign to preserve or reclaim about 56,000 miles of traditional tracks used when the animals migrate between winter and summer pastures. After a summer in Spain's northern mountains, the sheep are returning 560 miles to their home farms near Cáceres in the west.

**UK supermarkets criticised** British supermarkets are selling food produced in developing countries by farmers working for unacceptably low wages in dangerous and degrading conditions, says Christian Aid. The international charity claims to have found "punishing" work conditions, pesticide poisoning, low wages and discrimination in countries such as Brazil, South Africa, Thailand and Peru. Page 7

**European Monetary System** The Irish punt kept its place at the top of the EMS grid last week, buoyed by the continued strength of sterling. There was no change in the rankings compared with last Monday. Currencies, Page 25

EMS: Grid October 25, 1996



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilders which move in a 2.25 per cent band.

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Atlanta	LEK 275	Gibraltar	50.75	Lithuania Lit	15.00	Qatar	QR10.00
Austria	Sch 307	Greece	Dr 330	UK	£1.75	S. Africa	R11.00
Bahrain	Bdt 200	Hong Kong	HK\$100	Malta	LM0.70	Singapore	S\$1.30
Belgium	BF 75	Hungary	F 270	Morocco	MD 118	St Kitts	SK\$75
Cyprus	C\$ 2.00	Israel	₪280	Nepal	₹ 4.75	S. Africa	R12.00
Czech Rep	czk 20	India	₹100	Nigeria	N125	Spain	₧650
Denmark	Dkkr 100	Japan	¥100	Norway	Nkr 22.00	Sweden	Skr 20
Egypt	E£ 20	Italy	L 2000	Oman	OR 1.75	Switz	Sfr 3.70
Estonia	EEK 20	Japan	¥100	Pakistan	₹50	Syria	S\$10.00
Finland	Fmk 100	Jordan	Jd 1.75	Poland	z 100	Turkey	TL 20.00
France	FF 120	Kuwait	Kd 1.75	Portugal	Esc 200	Turkey	TL 20.00
Germany	DM 1.00	Labrador	LL\$200	UAE	Em 2.00	UAE	Dh 10.00

## Success paves way for faster privatisation scheme

# Big demand for shares in Italy's Eni sell-off

By David Lane in Rome

Italy's largest ever share offering - in Eni, the state energy concern - has been heavily oversubscribed, paving the way for an acceleration of the country's privatisation programme.

The treasury reported heavy demand from both retail and institutional investors for the 1.1bn shares, priced on Friday. The sale, which raised a total of L7,698bn (\$5,084m), was the largest secondary offering ever carried out in continental Europe.

The government's stake in Eni, which includes engineering and petrochemical businesses as well as oil and gas, has been reduced from 85 per cent to 71 per cent or less as a result of the sale.

Institutional investors applied to buy three times the amount of shares on offer, while demand from retail investors was so heavy that the number of shares available to them had to be increased from 450m to 700m.

Mr Mario Draghi, the director-general of the Italian treasury, described the operation as a step towards the company's complete privatisation, and said it could prepare the ground for an acceleration of the sale of state assets.

"This success has... allowed us to reposition the whole privatisation programme, defining new reference points and indicating new and more ambitious objectives that would have been hard to reach before this operation," Mr Draghi said.

The Italian government hopes to sell its controlling stake in Stet, the telecommuni-

cations group, early next year and a first tranche of shares in Enel, the electricity corporation, at the end of next year.

Mr Draghi has said the treasury is also looking at the privatisation of savings banks controlled by local government.

Institutional investors in the Eni offer are paying Friday's official closing price of L7,151, while retail buyers were offered a 3.5 per cent discount, obtaining the shares at L6,910.

In addition to the 1.1bn shares sold on Friday, underwriters have the "greenshoe" option to issue a further 165m shares, pushing the total value of the sale to L8,880 bn.

The sale of the second tranche of Eni's shares is a significant improvement on the outcome of the initial public offering in November last year when the treasury ministry sold 15 per cent of the group's share capital.

The treasury ministry had then earmarked up to 1bn shares for Italian small investors, but closed the offer two days ahead of schedule when it became clear that the retail offering had flopped.

Mr Draghi said of the latest sale: "We wanted to use this offering to promote a share-owning culture among individual investors."

At 383,000, the number of applicants in the Italian retail offering was almost double the 195,000 small investors who applied for shares when the first Eni tranche was sold.

Analysts say a sale of a third tranche of Eni shares, with perhaps as much as 20 per cent of the equity being offered, could take place next summer.



Police fire teargas at protesters of the Jamaat-i-Islami party in Rawalpindi, Pakistan yesterday. Islamabad was sealed off and at least 25 people were injured when police charged a crowd of about 10,000 with batons. The protesters were demonstrating against alleged corruption in prime minister Benazir Bhutto's government. Report, Page 8

## Gap closes between EU's rich and poor nations

By Lionel Barber in Brussels and Stefan Wagstyl in London

The gap between rich and poor countries in the European Union is closing, according to an in-depth study of EU regional policy.

But wealthier nations are seeing widening gaps between their prosperous and deprived regions, particularly in employment levels. This is especially true of Britain, says the report.

The study, to be published by the European Commission on Wednesday, is the most comprehensive official assessment of the effectiveness of EU regional aid, which accounts for almost one-third of the annual Ecu90bn EU budget.

The Cohesion Report, which covers the period from 1983 to 1993, is part of preparations for the return of regional aid ahead of the proposed enlargement of the EU to include the poorer, farm-intensive economies of central and eastern Europe. It is widely accepted that extending EU policies to the new applicants would be prohibitively expensive.

Ireland has made the most spectacular advances in raising incomes through higher economic growth, with Spain also showing impressive gains. Together with Greece and Portugal, the "Poor Four" have raised average per capita income from 66 per cent of the EU average in 1983 to 76 per cent in 1995.

Mrs Munkia Wolf-Mathies, EU regional affairs commissioner, is expected this week to welcome the report's conclusions as proof that Brussels aid can reduce social and economic disparities in the EU.

But these successes could make it difficult for the four to continue receiving huge EU handouts in the next EU budget talks starting in 1999.

Ireland faces a particularly difficult task since its GDP per head has risen from 63.6 per cent of the EU average to 89.9 per cent in 1995. Some economists believe it could overtake Britain's average income levels by the turn of the century.

The UK's success in creating jobs and reducing unemployment compared to the rest of Europe is confirmed in the

## UK Labour party might delay entry into Emu

By John Kampfner in London

A UK Labour government would find it very difficult to join a single European currency in the first wave, but would almost certainly seek to join after the general election due by 2002, a senior party spokesman said yesterday.

In the opposition party's most sceptical assessment yet of the prospects of UK participation in Emu at its planned inception in January 1999, Mr Robin Cook, shadow foreign secretary, said the parliamentary timetable for an incoming Labour government would probably preclude early membership.

Aides of Mr Tony Blair, Labour leader, said Mr Cook's remarks did not contradict party policy, which is that a decision will be taken nearer the time on the economic merits.

European banks could see revenues from cross-border money transfers cut by almost \$5bn a year as a result of monetary union. Report, Page 2; Time pressure, Page 7

However, Mr Cook appeared to stretch party policy to its limits. He suggested that a Labour government would be wary of having its economic policy dictated by the Maastricht convergence criteria required for entry and of having its legislative programme dominated by the issue.

"We can only assess the position in government," Mr Cook told the Financial Times last night. "But any intelligent person can see that the obstacles are formidable."

While the issue has deeply split the government, it is also producing increasing strains within Labour. Mr Gordon

Brown, shadow chancellor of the exchequer, is known to be more enthusiastic about Emu entry in 1999. A senior party official said he would be likely to resist Mr Cook's pessimistic evaluation.

An adviser to Mr Blair said no "fixed, firm or collective view" would be taken until after the general election, which appears most likely in May 1997.

Mr Cook's position may reinforce difficulties for Mr John Major, prime minister, who has forced his cabinet to rally behind a neutral "wait and see" policy on Emu. Some Eurosceptic ministers in the governing Conservative party have made clear, however, that the Tories will rule out participation immediately after the election.

Mr Cook, interviewed earlier

Continued on Page 18

## India to ease curbs on consumer goods

By Peter Montagnon and Mark Nicholson in New Delhi

India will present its trading partners in the World Trade Organisation with proposals for liberalising imports of consumer goods in January, after 50 years of protection.

The move is evidence that Mr H.D. Deve Gowda, prime minister in the five-month-old United Front government, is prepared to take the economic reform process further, but the timing is more determined by pressure from WTO members.

Mr Tejendra Khanna, India's commerce secretary, told the Financial Times that even modest purchases of foreign consumer goods by India's 300m-strong middle class would push up imports by \$20bn a year.

However, opening up the consumer sector will provoke strong political resistance from opposition parties and some members of the 13-party coalition government, which retain a deep distrust of foreign multinational companies.

This has led to high-profile opposition in the past to investments by companies such as Coca-Cola and Kentucky Fried Chicken.

Since last year both Europe and the US have been arguing strongly that India no longer

has the balance of payments vulnerability which it has traditionally used to justify food protection of its consumer goods market. The issue is likely to come to a head in January when the WTO will consider a study by the International Monetary Fund on India's balance of payments.

Mr Khanna said his government would present to that meeting proposals broadly aimed at completing liberalisation by the turn of the decade. However, western diplomats say they expect tough talks with India both on the timetable and the degree to which it will be able to control the liberalisation process through the use of special import licences.

The industrial countries say India's \$18bn in reserves, worth more than five months' imports, mean it has no balance of payments problem, especially since liberalisation would lead at first only to the import of a limited quantity of luxury goods such as liquors and cosmetics.

Mr Khanna warned: "I don't think that our foreign currency balances would permit a precipitate opening up of the consumer sector." However, India, which aims to more

Continued on Page 18

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# EU finds flexibility bends both ways

## A boon to expansion or a bomb under unity? Lionel Barber looks at the future of Europe

Few ideas arouse more suspicion than the term "flexibility" when politicians debate the future of the European Union.

Supporters see it as a device for like-minded countries to speed up integration and leave behind less enthusiastic member states. Critics regard flexibility as the ticking bomb which could blow apart the EU.

Tomorrow night, in Luxembourg, the 15 high-level negotiators in the Maastricht treaty review conference will resume debate on what is turning into one of the most fascinating and important questions in the IGC.

Their starting point is a joint paper France and Germany unveiled last week in an effort to clarify the terms and conditions for applying flexibility - otherwise known as "differentiation".

The Franco-German paper falls far short of a blueprint for action; but the proposal that no member state should be able to veto closer co-operation between groups of EU countries has triggered alarm in Britain, Spain, and to a certain extent, in Scandinavia.

They fear the creation of an elite grouping which could discriminate against other EU members, undermining the present delicate balance between large and small countries, and between the economically advanced north and the poorer south.

As one Swedish official said: "There is a lot of caution and suspicion because flexibility represents a very new development which breaks with tradition. When we ask questions, we don't get clear answers."

No one disputes the need for a degree of flexibility in the EU. In 1958, when the union comprised only six members, it was natural for all to accept the same rules, institutions and policies. But in a union of 15 member states, which is increasingly diverse in political, cultural, and geographical terms, patterns of co-operation have become more varied.

Examples of flexibility include the 1985 Schengen agreement, which began as an accord among five coun-

tries to scrap border controls and has steadily expanded membership; the Western European Union, the EU's embryonic defence arm, which does not include "neutral" members such as Austria, Finland, Ireland and Sweden; and the Maastricht treaty, which explicitly provides for an "advance guard" to form economic and monetary union.

There are three reasons for assuming that the trend toward more flexibility will continue. First, the admission of poorer, smaller countries from central and eastern Europe will sharply increase diversity in EU membership. Second, many believe that a 25-plus Union needs a Franco-German nucleus as a magnet for tighter political integration.

### **Ironically, Mr Major spoke of the advantages of a 'multi-speed, multi-track, multi-layered' EU**

Third, new devices are needed to circumvent countries such as Britain and Denmark which want to preserve the status quo.

The issue the IGC must settle is when, where and under what conditions flexibility should apply. Should there be pre-defined areas of closer co-operation, a general enabling clause (favoured by France and Germany), or case-by-case flexibility? Should core EU policies such as the single market, competition, and trade policy be labelled "no-go" areas in the new "Maastricht 2" treaty?

Perhaps the trickiest issue is whether member states should retain the right to veto efforts by others to press ahead, even though this right would appear to negate the very principle of flexible integration.

The irony is that Britain has championed flexibility ever since Mr John Major, the prime minister, won the right in the 1991 Maastricht treaty to opt out of the planned single currency and EU social policy. In Septem-

ber 1994, Mr Major spoke in glowing terms about the advantages of a "multi-speed, multi-track, multi-layered" EU.

What Mr Major means in practice is that the British favour flexibility where it offers the maximum choice. In justice and home affairs, Britain is relaxed if government-to-government conventions on penal co-operation enter into force before they are ratified by all 15 member states. In foreign policy, Britain, like France, prefers *ad hoc* arrangements with privileged partners such as the Contact Group on Yugoslavia.

Yet the British, like the Spanish, are starting to grasp that flexibility is a double-edged sword. The danger of being cut out of the core business of the Union becomes more apparent once it is viewed in the light of the planned single European currency.

France and Germany have pledged to meet the January 1 1999 deadline for Emu. They are the two indispensable political pillars for the project, and both clearly see the future Emu bloc as a platform for greater co-operation. Fear of being left behind is the driving force behind the heroic efforts in Italy, Portugal and Spain to meet the Maastricht deficit and debt criteria for Emu.

Spanish officials are already considering scenarios whereby the Franco-German core draws up new rules in areas such as tax, the environment or social policy which could discriminate against countries outside the Emu bloc. Franco-German plans for a "Stability Council" for Emu members to enforce budgetary discipline among themselves could be the institutional nucleus of such an exclusive political grouping.

If flexibility is forged with Emu in this fashion, the consequences would be profound. So far, no one is ready to contemplate the idea of a "community within a community", but some believe it is inevitable. As one official involved in the IGC discussions concedes: "The historic direction is going this way."

# Big annual loss of revenue from cross-border money transfers seen

## Emu 'could cost banks \$5bn'

By George Graham, Banking Correspondent

Banks could see revenues from cross-border money transfers cut by almost \$5bn a year as a result of European monetary union, according to a study from the Boston Consulting Group.

Since the European Union accounts for half of all global cross-border payment revenues, that could make Emu a devastating blow to the banks' existing franchise for international wholesale money transmission services, leaving perhaps only three to five global banks able to compete.

Although BCG forecasts that the number of cross-border wholesale payments around the world will nearly triple from 253m transactions in 1994 to 745m in 2004, banks will take a much smaller slice from the cake.

Some of the biggest companies have already negotiated the fees they pay for an international payment down from an average of \$30 three years ago to \$10 today. Some corporate treasurers have cut fees by 75 per cent in the last 12 months.

Most companies still pay much more than this but BCG expects the average to drop from \$62 per transfer today to around \$32 in 10 years. "Customers are increasingly unwilling to pay a significant premium for transferring money across national boundaries. The message is that a lot of banks will be losing a lot of revenue," said Mr Nick Viner, a BCG vice president and co-author of the report.

Besides the impact of Emu, Mr Viner sees banks suffering as companies introduce more sophisticated treasury management and concentrate dealings with fewer banks. Traditional correspondent bank-

ing, in which one bank will channel its payments in another country through a friendly local bank, is less able to compete on cost and efficiency with the global banks which can assure payment around the world through their own networks.

Only a handful of banks are able to give that sort of service. Bank of America, Chase Manhattan, Citibank and NatWest are thought to be the only ones already capable of providing real time multi-currency accounting and instant updating of client ledgers, though European banks such as ABN-Amro and Deutsche Bank are also thought to be significant competitors.

The BCG study, prepared for a conference of payments executives in Montreux last week, is one of the most comprehensive recent attempts to map the payments business, which remains at the heart of the

banking industry but which many banks have tended to take for granted.

Although few banks separate revenue from their payments business from other income, BCG estimates total payment revenues - including wholesale and retail, international and domestic - amounted to \$207bn or 7 per cent of total revenues in 1994 for the top 1,000 banks.

Banks will suffer the same pressure on their domestic payments income as on cross-border business, with volumes increasing but revenues per payment falling from an average of 65 cents to 35 cents. Retail customers, too, will pay less.

Without any of the negative factors, such as Emu, revenues from cross-border wholesale transfers would have been expected to rise from \$16bn in 1994 to over \$45bn in 2004, but with those factors BCG forecasts profits of only \$24bn.

# Farm ministers face fresh row over beef

By Caroline Southey in Brussels

European farm ministers are set for a showdown this week with Mr Franz Fischler, European commissioner for agriculture, over plans to cut aid to cereal farmers in order to fund measures to address the beef crisis.

European Union officials predict that the ministers, who begin meeting in Luxembourg today, will avoid making any hard decisions - for example, on a commission proposal to slaughter more than 2m calves to reduce production and cuts

in aid payments to arable farmers.

They say agreements may be reached on limited measures such as raising the ceiling on surplus stock.

A seven-month-old crisis sparked by fears over mad cow disease has increased beef surpluses and depressed prices. But all EU countries except the UK and Sweden are backing at Mr Fischler's plans to ease the pressure on the market.

"The negotiating situation is very difficult. There is general recognition that something has to be done, but not one single element of the package has reasonable

backing," an EU diplomat said.

Mr Fischler's drive for urgent action has been undercut by signs that beef prices have risen recently and that the fall in consumption has been arrested. The Commission admitted last week it had reduced earlier forecasts that the beef mountain would reach 720,000 tonnes by the end of the year.

But it warned that pressure on the market had eased only because 220,000 tonnes of beef was being exported each week. An official said this level of exports could not be sustained

because of limits on subsidised exports under the General Agreement on Tariffs and Trade.

The Commission calculated that the EU had used up 40 per cent of the total quota for the marketing year which ends in June 1997, exporting 100,000 tonnes more than it should. Under Gatt rules, the EU is allowed to export 1.1m tonnes of subsidised beef during the marketing year.

"The exports have helped stabilise the market. But we are eating tomorrow's dinner today," an EU official warned. "The day of reckoning will come and we will

have used up our quota."

The most difficult issue facing the ministers will be the question of boosting aid to beef farmers. The ministers cannot settle the question of cutting aid to cereal farmers to free funds for the beef sector this week, because the European parliament has so far refused to give its opinion on the issue.

But the proposals risk running into the sand in any event. "We are on a collision course over the budget. Most member states do not want the cuts because the cereal farmers would be hurt," the EU diplomat said.

# Europe's IT market set for further rapid growth

By Paul Taylor

The European markets for information and communications technology equipment, software and services will grow by 8 per cent to Ecu354bn (\$50bn) next year, according to the Frankfurt-based European Information Technology Observatory.

This compares with growth of 7.6 per cent in the current year and 8.2 per cent last year, when the market grew to Ecu304bn, says the Technology Observatory's

recently published study, EITO Update 1996.

The Technology Observatory, which tracks European spending on IT and communications, says trends contributing to growth include:

- The shift towards outsourcing IT services such as data centres, consulting and strategies;
- Demand for high-performance personal computers with multimedia capabilities;
- Increasing telecommunications traffic;

• New entrants to the telecommunications industry;

• Expansion of the packaged software market.

However, the study acknowledges that its expectations for IT market growth this year have been slightly downgraded to 6.6 per cent from 7.1 per cent at the start of the year because of the economic downturn in the first six months.

As a result the European IT market is now forecast to increase from Ecu142bn to Ecu151m this year and by 6.9 per cent next year. Year by year, IT demand in western Europe is growing by more than Ecu10bn.

This year hardware products including computers will account for 43 per cent of the IT market. In 1996-97 this segment is expected to

### IT: where the expansion lies

Country	Information technology (%)			Telecommunications (%)		
	1995	1996	1997	1995	1996	1997
Germany	7.2	6.4	7.4	6.6	6.7	6.6
France	7.2	6.4	7.4	6.6	6.7	6.6
UK	7.2	6.4	7.4	6.6	6.7	6.6
Spain	7.2	6.4	7.4	6.6	6.7	6.6
Italy	7.2	6.4	7.4	6.6	6.7	6.6
Sweden	7.2	6.4	7.4	6.6	6.7	6.6
Denmark	7.2	6.4	7.4	6.6	6.7	6.6
Netherlands	7.2	6.4	7.4	6.6	6.7	6.6
Average	7.2	6.4	7.4	6.6	6.7	6.6

Source: EITO Update 1996

grow by 6.2 per cent, led by PCs and workstation sales, which are growing by 9 and 11 per cent respectively in value, and local area networks, which will grow by 18 per cent this year and 12 per cent next year.

Overall, the hardware market in Europe has grown from Ecu61.6bn last year to Ecu65.4bn this year and will increase to Ecu69.5bn next year while the software market, which is growing by between 9 and 10 per cent a year, will grow from Ecu32.4bn to Ecu35.5bn next year.

IT services will increase by about 7.5 per cent from Ecu35bn last year to Ecu37.3bn this year and Ecu40.2bn next.

Meanwhile the telecommunications sector is growing even more strongly, fuelled by demand for mobile telephones in the business and consumer markets.

Overall the European telecommunications market, which grew by 9 per cent last year to Ecu162.7bn, will grow by 8.6 per cent to Ecu176.7bn this year and 9.1 per cent to Ecu192.7bn in 1997.



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FINANCIAL TIMES MONDAY OCTOBER 28 1996

money transfers... \$5bn... Windfall \$65m dividend for Ambrosiano creditors

# Windfall \$65m dividend for Ambrosiano creditors

By Jim Kelly, Accountancy Correspondent

More than 14 years after the collapse of Banco Ambrosiano a group of creditor banks has received confidential notice of an unexpected \$65m dividend from liquidators following the completion of legal actions.

The scandal surrounding the collapse of Banco Ambrosiano Holding in August 1982, brings total dividends so far to \$602m - a healthy 86 per cent of the losses.

The liquidators had already recovered \$151m from the IOR, the Vatican bank, and \$144m and \$20m from the sale of shares in Banco del Gottardo and BAMS - an Argentine subsidiary of the holding bank.

## Ukraine laments lost soaps

Children's specials and Brazilian melodramas go as Kiev tries to squeeze out Russian TV, reports Matthew Kaminski

Angry Ukrainians are protesting against their government's decision to take ORT, Russia's state television network, off Ukraine's third terrestrial TV channel.

Restrictions were put on Russian television programmes last year, when ORT programmes were removed from the main television channel.

Poorly funded Ukrainian networks have not been able to compete. Their news format remains largely unchanged from the Soviet era.

ORT - broadcast across eastern and central Europe, as well as in Israel - recently expanded its commercial operations in Ukraine.



Ivan Marazov, presidential candidate of Bulgaria's Socialist party, votes yesterday. Low early turnout appeared to point to apathy among voters.

### EUROPEAN NEWS DIGEST

## Rome pension review urged

The Italian government wants to bring forward a review of the country's pension system. Mr Walter Veltroni, the deputy prime minister, told industrialists in Capri at the weekend.

## Ukrainian miners go on strike

Miners at 17 Ukrainian coal pits went on strike at the weekend demanding unpaid back wages. The action follows similar protests earlier this month by teachers and other state employees.

## Deutsche Bank deal sets up Visa for Germany

By Krishna Guha, Torsten Riecke and George Graham

Deutsche Bank has now announced that it will start issuing Visa cards alongside its existing Eurocards, which are linked to the Europay/MasterCard consortium.

The average German uses a payment card just five times a year, according to Datamonitor, the market research organisation.

Card acceptance remains much lower than in other European countries, partly because of the heavy charges processors levy on traders - up to 8 per cent, compared with between 1 and 4 per cent in the UK.

German bankers argue that their credit market is not underdeveloped, as revolving credit comes with current accounts, rather than credit cards.

More Germans are applying for credit cards before they travel abroad, but many stop using them - or even send them back - when they get home.

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RLD-MEN

# Ortiz confident after Mexican talks



Guillermo Ortiz: sees 'modest recovery' in consumption

By Leslie Crawford  
in Mexico City

Mr Guillermo Ortiz, Mexico's finance minister, yesterday forecast a modest recovery in real wages and consumption during 1997 and strong growth in public and private investment, following a weekend conclave with labour and business leaders that settled next year's economic goals.

He said 1997 would be "a year of transition" in which he hoped to consolidate Mexico's economic recovery. "The real challenge," Mr Ortiz said, "will be to get closer to our economic growth target of 6 per cent a year from 1998 onwards".

He said the economy was set to grow by almost 4 per cent this year, following last year's deep recession, and would grow by more than 4 per cent in 1997.

Unions - some of which boycotted the weekend meeting - accepted a 17 per cent increase in the minimum wage, against projected inflation of 15 per cent for 1997. Few Mexicans, however, earn the minimum wage of less than \$3 a day.

More than 80 per cent of Mexico's unionised workers, according to Mr Javier Bonilla, labour minister, are negotiating wage increases of 20 per cent or more for 1997.

Most economists believe a

recovery in real wages is essential to revitalise the domestic economy after the battering it received from the devaluation of the peso in 1994. Private consumption contracted by 14 per cent last year.

Mr Ortiz said he had seen a "modest recovery" in consumption during 1996 of 2.5-3 per cent, but he did not expect consumption to grow by much more than that in 1997.

The government, he said, intended to revive its investment programme after the sharp cuts of the past two years. Even so, public investment would amount to only 3.5 per cent of gross domestic product.

Mr Hermilio Blanco, trade minister, said the flow of foreign direct investment in 1997 would be similar to previous years at \$7bn-\$8bn, or about 3 per cent of GDP. Mexican business leaders, meanwhile, said their investment outlays could top \$9bn in 1997, against \$6bn this year.

Mr Ortiz said he would run a small budget deficit of about 0.5 per cent of GDP in 1997. The current account of the balance of payments would also show a deficit of less than 2 per cent of GDP (compared with more than 8 per cent of GDP before the devaluation) as the economic recovery generated demand for imports.

# Peddlin' the US dream 'n family values

Patti Waldmeir on Congressman Chrysler's direct approach



US ELECTIONS  
November 5

Thank goodness for Congressman Dick Chrysler's two granddaughters, Chloe and Heather. They provide this conservative Republican, running for re-election in middle Michigan, with his best door-to-door campaign line. "Leave you little picture my gran-daughters Chloe 'n Heather," he says, in the frugal political shorthand pioneered by his party's presidential candidate, Mr Bob Dole.

Eschewing wasteful articles and propositions, he gets straight to the point. "Little bit light reading," he says, thrusting out a brochure adorned with a picture of the two blonde toddlers in American flag dresses and patriotic face paint, and carrying the catchy title "A Progress Report of the 104th Congress".

The girls are there to prove that the Republican Congress elected in 1994 - and Michigan's 8th district congressman, Dick Chrysler - are not hard-hearted. The 10 pages of glossy charts and text are there to show that Congress kept its promises to Republican voters, and that the party deserves to maintain its dominance.

Mr Chrysler does not waste either words or body language conveying this message.

He leaves it to Chloe and Heather and the brochure. With a lightning handshake, and a mumbled request - "preciate y'r sport on N'vember 5" - he is out the door and back on the street. Loquaciousness is left for the free-spending, big-government Democrats.

Last week the congressman was visiting voters in Grand Blanc, a mid-Michigan town which is a paragon of American bleakness and a solid base for 8th district Republicans. He left a stack of brochures at Linda's Bridal Emporium, purveyor of the extravagant laces and frills favoured by mid-western brides.

He called in at Tuxedo World, and the dry cleaners, and at Staffan's Pizzas. And he grabbed a campaign lunch at the Big Boy, grandfather of all mid-western fast food restaurants, famed for its cream pies and down-home waitresses.

They let him order his food while making the rounds of midday diners - he called for a chicken pot pie, mashed potatoes and a bowl of soup - and even when the pot pie's canary-yellow gravy congealed with waiting, they did not complain. Whether or not they voted for him - and most of the waitresses surely did not - he was their congressman, and a big man in Grand Blanc.

Earlier that day he had stood on the football field at Grand Blanc high school, campaigning next to Mr Dole. It was a high political moment for their town, and about to deflate it.

Mr Chrysler stopped dutifully at each booth, where elderly ladies in pastel pantsuits wiped fingers free of french-fry grease to shake his hand, and where even the most obviously Democratic voter accepted his Chloe 'n Heather brochure with mid-western politeness. "Pleased to meet you," they said in unison, although subsequent comments made clear that many had no idea of the congressman's name, his party, or even his office.

# World drug sales growth holds steady

By Daniel Green

World pharmacy drug purchases January-August 1996 (\$m)

	US	Japan	Germany	France	Italy	UK	Spain	Canada	Belgium	Netherlands
Cardiovascular	5,394	2,328	2,552	2,268	2,225	743	574	476	239	228
Allimentary/Metabolism	5,173	3,129	1,855	1,493	963	887	560	381	195	290
Central Nervous System	7,002	778	2,269	273	868	838	446	415	221	165
Anti-infectives	3,822	1,731	835	1,105	744	279	388	173	154	80
Respiratory	3,851	1,291	1,220	673	419	847	37,882	238	136	194
Blood Agents	1,930	1,447	518	643	349	113	201	178	86	81
Genito-urinary	2,421	711	857	537	282	248	132	138	63	78
Others	7,137	4,308	2,336	1,492	1,210	834	654	462	225	217
Total	37,870	18,238	11,284	8,644	6,948	4,874	3,244	2,459	1,348	1,281
% Change**	7	2	7	3	11	11	10	5	7	1

Source: IMS International

\*Non-hospital market only

\*\*Increase excluding currencies

Sales of prescription drugs in the world's main markets maintained steady growth of 6 per cent to \$82.6bn in the year to August, compared with the same period in 1995, according to data published today.

The figures from IMS International, the specialist pharmaceuticals industry market researchers, show that while the growth rate is slower than a year ago it is still one of the best of the 1990s.

Growth is being led by the UK and Italy, each of which saw sales rise 11 per cent.

Sales in Italy reached \$5.85bn as the industry recovered from two years of government-imposed price controls. Although UK sales rose to \$4.37bn, it is still one of the smallest drug markets

in terms of per head spending.

Growth was held back by Japan, the world's second biggest medicines market, where sales grew 2 per cent to \$15.29bn. This nevertheless represents a recovery from the first quarter, when sales were depressed by a comparatively mild influenza season which hit sales of antibiotics and respiratory drugs.

The world's biggest market remains the US where sales grew 7 per cent to \$37.67bn, the same rate as in Germany, where sales reached \$11.25bn. Sales in France grew 3 per cent to \$9.64bn.

By therapeutics areas, the star performers were antidepressants led by Prozac, made by Eli Lilly of the US.

Antidepressant sales for the first eight months were 13 per cent up on the same period of 1995 at \$12.9bn.

Growing even faster, but from a lower level, were blood agents, which include

a new group of drugs designed to lower cholesterol levels.

Blood agent sales rose 16 per cent to \$5.5bn. In the US they grew 21 per cent and in the UK 51 per cent.

Heart drugs remain the biggest single area, with sales of \$16.5bn. But competition as patents expired on older products held back growth to 3 per cent.

IMS has also released figures on the fast-growing Latin American markets, some of which have been singled out for special attention by drug companies.

Brazil is the biggest and fastest growing market, with sales for the year to June rising 24 per cent to \$8.7bn. The next two largest markets, Argentina and Mexico, both saw sales fall, by 2 per cent to \$3.6bn and 10 per cent to \$2.5bn respectively.

# Adverts see Dole defeat as inevitable

By Patti Waldmeir  
in Washington

In the clearest sign yet that the Republicans are preparing for defeat in next week's presidential election, the Republican party will today begin airing television advertisements which treat a victory for President Bill Clinton as a foregone conclusion.

The adverts, due to appear in some 50 congressional districts, call on voters to support Republican candidates for the House of Representatives as a counter-balance to a Democrat in the White House. The advertising campaign is the most public acknowledgement so far that the party has turned its attention to preserving its control of Congress, rather than winning the presidency.

Republican candidates have been using this approach for weeks already, confident that the idea of a balance of power between Congress and the White House will appeal to voters.

As the media and politicians from both parties have increasingly begun to rule out a victory for the Republican presidential candidate, Mr Bob Dole has turned sour and abrasive on the stump. Campaigning in California at the weekend, he lashed out at the press and public for failing to condemn the ethical violations of his opponent. "Wake up, America! Wake up, America!" he shouted at a California campaign rally.

He accused the president of personal involvement in a scandal involving misuse of FBI files of former White House employees, provoking the White House to ask for an apology. Politicians from both sides also continued to clash at the weekend over campaign funding scandals affecting both sides.

They let him order his food while making the

gossiping down his chicken pie, he told his life story: son of a house-painting father and punch-press-operating mother, he "never made it to college". Instead, he raced "fuel dragsters", those quintessentially mid-western vehicles built from scrap metal and bicycle tyres which struggle to remain earthbound against the thrust of oversized engines.

His is a middle-American fairy tale, of a drag racer who starts out, sweeping floors at the local car customiser and ends up owning the company.

"Only in America," Mr Chrysler concludes. He says he entered politics to ensure that such only-in-America dreams would forever endure.

But back in the street, climbing into his Oldsmobile Aurora sedan with heated seats built in an 8th district auto plant, he is once again "only a candidate". Clutching his brochures, and his enduring faith in the Republican dream, Mr Chrysler is off to practise his campaign lines in yet another nondescript Michigan town.

"Picture my gran-daughters, Chloe 'n Heather," he will say. "Thank you," middle Michigan will reply, too polite to refuse this vision of family values. "Preciate y'r sport on N'vember 6," he will say. No one will know until then whether he has got it.

More people fly on a Boeing 737 than any

other airplane. In fact, 737's have carried nearly

4 1/2 billion passengers all over the world. What

accounts for this success? In a word, value. For

passengers and airlines alike, the 737 offers the

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been connected by jetliner service. To date,

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## CONTRACTS & TENDERS

### ROMANIAN STATE RAILWAYS



#### BIDDING NOTICE

1. OBJECTIVE: S.N.C.F.R. intends to organize for international participants a public opened bid, without preselection, in order to fund and finalize the following investment projects in railway infrastructure based on "turn-key" contracts to be concluded for the following projects:

- A. new railway line Vâlcele-Râmnicu Vâlcea;
- B. new railway line Albeni-Seciuri;
- C. rehabilitation consolidation and superelevation of the line retaining walls in the area of Portile de Fier power plant
- D. new railway line Hârlau-Flămânzi.

2. INVESTOR: Romanian State Railways S.N.C.F.R.

3. FUNDING SOURCE: External loan assured by the bidders; repayment is guaranteed by the Government of Romania.

4. INFORMATION RELATED TO THE ORGANIZER: Romanian State Railways, 38 Dinicu Golescu Blvd., sector 1, code 77113, Bucharest, Romania; Tel: (+401) 6384630; Fax: (+401) 2230645.

For any additional information please contact us at the above mentioned phone or fax numbers.

5. VISIT ON SITE: Romanian State Railways is organizing a visit on site for the bidders with the aim of getting useful information for preparation of the bids.

This visit will take place during 25-30 November, 1996.

All the costs related to this visit will be borne by each bidder. Applications to participate in this visit will be made by fax or by mail at the address and fax numbers stated under item 4, until 18 November, 1996, 12h00, stating the name of the respective participant.

NEWS: INTERNATIONAL

# Deficit cuts face rough Knesset ride

By Judy Dempsey in Jerusalem

Israel's finance ministry will tomorrow present its 1997 budget to the Knesset, determined to push through measures to cut the deficit to 2.8 per cent of gross domestic product.

But analysts are sceptical that the deficit, expected to reach 3.8 per cent of GDP this year, will be met unless further cuts are introduced, particularly as economic growth for 1997 was yesterday revised downwards from 5 per cent to 4 per cent.

"Despite a slowdown in the economy, we intend to control spending and cut the deficit," Mr David Brodet, director general of the finance ministry, said yesterday.

He expects stiff opposition to his cuts, which will amount to Shk4.9bn (\$1.5bn) from a total expenditure of Shk165.5bn, excluding debt repayments.

Mr Brodet added that lower growth this year, expected to be 3.8 per cent compared with last year's 7 per cent, had been caused by closure of the West Bank and Gaza, which hit exports.

Mr Dan Meridor, finance minister, recently proposed even further reductions in

the deficit, which won the support of the Bank of Israel. The central bank is expected today to announce an interest rate cut that may go some way to appeasing the business community, which has been clamouring for a substantial rate reduction as well as a devaluation.

The planned budget cuts are likely to be challenged by the defence ministry, which is insisting on a larger slice of the budget in response to recent violence, and the education and trade ministries. Expenditure in education programmes and investment grants, especially in the technology and electronics sectors, are expected to be trimmed.

The cuts are part of the government's long-term strategy to bring the budget deficit down to 1.75 per cent of GDP, or 45.2 per cent of total expenditure, by the year 2000 through curbs in expenditure and the gradual reduction of the tax burden.

Part of this strategy entails tackling the large balance of payments current account deficit caused by an import boom in the mid-1990s.

This is expected to rise from \$3.9bn in 1995, or 4.7 per cent of GDP, to \$5.4bn this year.

# Fears grow over destabilisation of Zaire

Fears for the destabilisation of Zaire grew yesterday as the country's government, apparently paralysed by the absence of the ailing President Mobutu Sese Seko, seemed incapable of bringing order to the growing chaos in the east.

A total of half a million Hutu refugees were reported to be on the road, fleeing Tutsi fighters who have systematically targeted their camps at the border with neighbouring Rwanda and routed the Zairean army from several key towns.

Around 200,000 refugees were heading west after a camp 25 km north of the town of Goma came under mortar attack from the direction of Rwanda. Another camp was also attacked, and there were reports a town 50 km from Goma had been seized.

To the south, Banyamulenge Tutsis were advancing on the regional capital Bukavu after capturing the town of Uvira and emptying more than a dozen camps.

The United Nations, which over the weekend evacuated 130 staff and aid workers, called for an emergency mission and an international conference to prevent the conflict spreading. It appealed to Zaire, Rwanda and Burundi to refrain from

aggravating the situation. Rwanda has repeatedly rejected Zairean claims that it has sent troops across the border and armed the Banyamulenge Tutsis, declared persona non grata earlier this month by the regional deputy governor.

But it was becoming increasingly clear yesterday that the Rwandan authorities must be involved in what is emerging as a well-co-ordinated, two-pronged attack on the border area.

Diplomats speculated that the Tutsi-dominated administration, probably working in tandem with Burundi's Tutsi elite, had decided to exploit Mr Mobutu's two-month absence to rid itself of the nagging security problem on its western border.

"With Mobutu being treated in Switzerland for prostate cancer and no one running the shop, this was an ideal time to strike," said one.

With the complicity of the Zaireans, Hutu extremists responsible for extermination of half a million Tutsis have been crossing the frontier, killing witnesses to the 1994 genocide and anyone suspected of collaboration with the new Kigali government.

Outrage has grown over the role the UNHCR and aid establishment were playing



Rwandans flee a refugee camp near Bukavu after being shelled by ethnic Tutsi rebels yesterday

in feeding a guerrilla force intermingled with genuine refugees. Zaire's attempt to force the refugees home at the point of a gun last year sparked a storm of international protest. But when Mr Warren Christopher, US secretary of state, visited Africa this month he acknowledged some of the camps were conduits for arms and must close.

This has proved easier said than done. Western powers are not prepared to fill the region's power vacuum by direct intervention, while the logistics of relocat-

ing more than a million refugees 100 km from the border, as demanded by international law, is beyond relief agencies' existing resources.

The latest operations in eastern Zaire suggest Rwanda's aim is to empty the area of refugees and create a buffer zone between Rwanda and the extremists.

"They are doing something the UNHCR was incapable of doing and Zaire was told off for trying to do," said one observer.

However, hopes that the latest cataclysm will persuade the refugees, often

browbeaten by camp leaders into remaining, to finally return to Rwanda were fading yesterday. But so far only 10,000 have opted to cross the border at Goma, the rest are heading deeper into Zaire.

The alarming escalation of what began as a minor confrontation between the Zairean army and a group of beleaguered Tutsis, has confirmed regional analysts in their belief the crisis is capable of destabilising the region.

With Rwanda and Burundi's Tutsi armies working together policing their mutual border and Hutu extremists from both countries liaising from bases in Zaire, the oft-predicted regional Hutu-Tutsi confrontation is already becoming a reality. The fear is that eventually Uganda and Tanzania could be sucked into that bitter conflict.

Beyond the impact the conflict could have on East Africa, diplomats suggest recent events could signal the start of the long-anticipated disintegration of Zaire, regarded for decades as a black hole at the centre of Africa with an enormous potential for undermining its neighbours.

Corruption-ridden and anarchic, Zaire has noothe-

less remained an entity thanks to President Mobutu's ability to call his regional governors to order and dispatch crack troops to crush revolt in the far reaches of his empire.

The eastern Zaire violence, triggered by the careless words of a deputy governor, suggests Mr Mobutu's grip is weakening after 31 years at the helm and that the civilian prime minister, Mr Kengo Wa Dondo, cannot fill his shoes.

It remains to be seen whether the president, relegated to sending messages to Kinshasa from his sickbed, still has the authority and his near-bankrupt country the resources to put down this uprising.

Zaire's territorial integrity, tested over the years by a series of secessionist movements, is already under enormous strain. The province of Kasai uses its own currency, copper-rich Shaba has declared autonomy from Kinshasa, many areas have virtually no contact with the capital.

"If Kivu descends into chaos, what's to stop the rest of the country going its own way? This could be the end of Zaire as we know it," says a diplomat.

Michela Wrong

# Israeli settlers in Hebron put trust in God

By Judy Dempsey in Hebron

Mrs Orit Strock believes God, and not Mr Benjamin Netanyahu, the Israeli prime minister, is on her side.

An Orthodox Jewish settler, Mrs Strock came to the West Bank town of Hebron 14 years ago to fulfil her mother's dream and to revive the Jewish community which fled the town after 1929 when Arabs massacred 67 Jews.

"No matter what happens with the peace process, I am going to stay here," said Mrs Strock, a 36-year-old mother of eight children. "This is our land. This is our birthright. God will protect us."

Under the terms of the Oslo peace accords, Israeli troops were due to redeploy from Hebron last March, making it the last of the West Bank towns to come under Palestinian self-rule.

But Mr Shimon Peres, the former Labour prime minister, postponed the redeployment until after the elections last May. Mr Netanyahu, head of the conservative Likud-led coalition, is now saddled with the problem, beholden to some of his coalition partners who are loath to abandon the settlers, and bequeathed with a legacy seen as the linchpin of the peace process.

"If Netanyahu abandons us, we will stay on, whatever the price," said Mrs Strock.

Mrs Strock is one of the 415 Jews who live in Avraham Avinu, a tiny settlement of 20 families in the centre of Hebron surrounded by more than 130,000 Palestinians.

There are no-go areas where only Jews and those with Israeli-registered cars can pass through. There are barricades and Israeli-manned checkpoints separating Palestinian traders from the settlements across which insults are exchanged and stones thrown. There are times when Jews put up signs on Arab homes, claiming them as Jewish property.

The hatred between the communities runs as deep as the turbulent history of the bustling trading town.

The settlers, many from the US, started returning to Hebron soon after Israel occupied the West Bank after the 1967 Arab-Israeli war. "We were determined to rebuild a community here and claim it as our own," said Mr Noam Federman, head of Kach, the far-right wing extremist movement now banned by the Israeli government but which is active in Hebron. For Kach, the 1929 pogrom has become a potent symbol.

"I promise you, there can be no co-existence between Arabs and Jews," said Mr Federman. "Our movement will do what we can to destroy the peace process and the peace agreements.

We do not believe Arabs and Jews can live together," Mr Federman lives in Kiryat Arba, a prosperous 5,000-strong Jewish settlement on the outskirts of Hebron. "We will protect ourselves against them," he said, pointing to Arab houses half a kilometre from Kiryat Arba, and to his gun.

But the Palestinians live in fear just as much as the Jews. The memory of Mr Baruch Goldstein, a fervent Kach activist and US immigrant, has not faded. Two years ago, Mr Goldstein walked into the centre of Hebron to the Cave of Machpelah, the traditional burial place of the biblical Abraham, Isaac and Jacob which is intensely holy to both Arab and Jew. There, he emptied three rifle magazines and killed 29 Muslim worshippers.

That incident played into the hands of Hamas, the Islamic resistance movement responsible for the wave of suicide bombings in Israel earlier this year and which has a strong foothold in Hebron.

Mr Yasser Arafat, president of the Palestinian Authority, has clamped down on Hamas, but there are always fears - among Palestinians and Israelis - that it will strike at any time, wrecking the chances of peace in its wake. "Both sides have their extremists in this town. It is so volatile here. Hebron is a tinderbox," said a diplomat involved in the previous peace agreements.

The Israelis are insisting on more security for the settlers, more buffer zones between Jews and Palestinians and the right of "hot pursuit" into Palestinian self-rule areas. The possibility of asking a few thousand settlers to leave is, for Likud, deemed politically unacceptable.

The Palestinians, for their part, are resisting any attempts to make Hebron a divided city, a Berlin of the Cold War era. Mr Arafat has already warned against any attempts to segregate the town on racial lines.

Liberal-minded Israelis, who this week were commemorating the assassination a year ago of Mr Yitzhak Rabin, former prime minister and the chief architect of the peace process, do not hide their contempt for the settlers. "Please understand, they do not speak for Israeli society. They are really fanatics. Peace should not be compromised or held up because of them," said Mr Michael Goffin, a banker.

But Mrs Strock said she and the settlers voted for Mr Netanyahu "because he said he would not let us down. If he abandons us, we have the Bible and we have God on our side."

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# LDP may govern without coalition

By William Dawkins in Tokyo

Mr Ryutaro Hashimoto, the Japanese prime minister, admitted over the weekend that talks with his former coalition partners on forming a new government had collapsed.

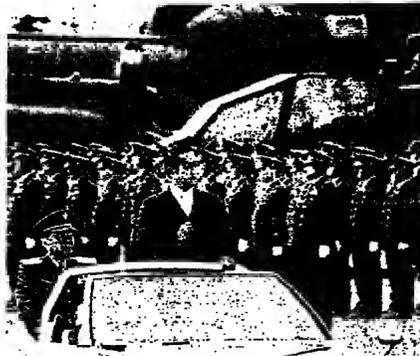
Mr Hashimoto, speaking a week after his conservative Liberal Democratic Party narrowly failed to win a parliamentary majority in a general election, said he now planned to form a government without the LDP's two smaller partners in the previous administration. "It can't be helped... We will do what we have to do whether or not we can get co-operation," he said.

This means he will have to rely on independents and defectors from the main opposition group - which last week averted a break-up

- to help him put together a majority. As a result, political observers in Tokyo believe there is now a high chance that the next government will be in such a precarious position in parliament that it will find it hard to carry out any policy that arouses slight opposition, due to the need to win a consensus from rivals. The LDP is 12 seats short of a majority in the 500-seat lower house of parliament. A weaker government would present a setback to Japan's hopes of tackling several serious economic challenges, including a rising tide of government debt, an under-funded pension system and the need to reinforce an as yet fragile economic recovery from the worst economic slowdown in 60 years. Until the breakdown of

LDP talks with its previous coalition partners, the conventional wisdom was that the election presaged a tighter grip for the LDP, enjoying a partial come-back from the previous election in 1993, when it was thrown out of power for the first time in nearly four decades. Despite falling short of a majority, the party attracted more seats last week than it did three years ago. A strong government might yet emerge, given that the post-election bargaining still has some way to go, but it now looks increasingly likely. The breakdown in coalition talks happened because the LDP was unable to accept a series of tough policy demands by the second largest party in the outgoing alliance, the leftwing Social Democratic Party. These included a lower sales tax on

food after a rise in sales tax is implemented next April, and a ban on business donations to political parties - the financial life-blood of the LDP. The smaller, centre-left, New Harbinger Party, supported its socialist partner's demands. Ms Takako Doi, the new socialist leader, warned SDP officials they should not regard talks with the conservatives as "just a step following on from the past." She was referring to the loss of support which the SDP had incurred by forming a coalition with the LDP, its traditional foe, from mid-1994 until the election on October 20. Then, the SDP's parliamentary strength was halved to 15 seats. The only other significant candidate for a new coalition, the newly formed Democratic Party, which cam-



Prime Minister Hashimoto reviews Japan's Air Self-Defence Forces at Ogawa, north of Tokyo yesterday

paigned on a pledge to curb the power of the bureaucracy, has kept its distance from Mr Hashimoto, for fear of suffering the same fate as the socialists.

## INTERNATIONAL NEWS DIGEST

### Indian power loan suspended

The World Bank has put pressure on India to speed up reform in its power sector by suspending loan payments to Maharashtra State Electricity Board (MSEB) for failing to meet performance targets. Sending a clear signal to India's ailing state electricity boards to lift performance, the World Bank suspended any further drawing down by the MSEB of two loan agreements worth \$456m. About \$200m had already been drawn from the loans. The Maharashtra state government said the move followed dissatisfaction in the World Bank over the financial health of MSEB and its failure to fulfil loan covenants. The government said the MSEB failed to lift its rate of return on assets to the targeted 4.5 per cent in the year to March 1996. In addition, the World Bank expressed concern over the amount of unpaid and "unrecoverable" electricity tariff payments which it estimated to be about Rs7.3bn (\$205m). The government said that it expected to make a grant of Rs6.31bn to MSEB in the December session of state parliament to boost the rate of return to 4.5 per cent in 1996-97. Despite a 17.3 per cent increase in electricity tariffs by MSEB, an additional grant of Rs1.6bn is expected to make later to enable the board to reach the rate of return target in the current fiscal year. *Tony Tussell, Bombay*

### Syrian leader 'wants peace'

Israeli opposition leader Shimon Peres said yesterday that Syrian President Hafez al-Assad wanted to achieve peace in 1996 and that Mr Assad had agreed to meet him to discuss it. "President Assad sent me a message through the Americans saying that he would like to conclude peace in 1996," Mr Peres told reporters after holding talks on the prospects for Middle East peace with Egyptian President Hosni Mubarak. "I said I'm ready. I have one condition. That is to promote the level of negotiation. You cannot negotiate on a low level where every once in a fortnight people are meeting and polishing a sentence. It will take generations. So I told President Assad (a former air force pilot): what do you want. Fly high and fast or low and slow. If you want to fly high and fast, okay, let's have a meeting, if you want to have it in 1996." "I got a reply saying: 'Yes, I am ready to meet you, but I can't give a date,'" the former Israeli prime minister and Labour party leader said. *Reuters, Sharm el-Sheikh, Egypt*

### Caution on Gulf currency

Qatar's central bank governor Abdullah bin Khalid al-Attiyah said yesterday. It was too early for a unified Gulf Co-operation Council (GCC) currency. "Monetary union will pass through stages," he told a Gulf banking conference in Manama, adding that it would come at the last stage of GCC economic integration. He suggested a single currency would be premature now because trade between Gulf Arab states was limited, and each country's efforts to deal with budget deficits was linked to their individual currencies. The GCC - Saudi Arabia, Kuwait, United Arab Emirates, Qatar, Oman and Bahrain - is a political and economic alliance. It is working to unify economic and monetary policies as part of a plan to set up a regional market. Excepting Kuwait, Gulf currencies are pegged to the dollar, in which their main export - crude oil - is traded. *Reuters, Manama*

### Afghan assault stalemate

Taliban troops held on to a strategic pass north of Kabul yesterday despite an assault by ousted Afghan government forces using rockets, artillery and warplanes to try to dislodge them. Fighting died down in the afternoon but intermittent shells and rockets continued to kick up the dust on the De Sabz pass, about 30km north of the Afghan capital. "We captured the high points which were planned," Abdullah, spokesman for ousted government military chief Ahmad Shah Masood, told reporters in the town of Jalalabad, 90km north of Kabul. "But the whole pass has not been secured," he said. Masood's former government forces have allied with fighters of the northern Uzbek leader, General Abdul Rashid Dostum, to try to drive the radical Islamic Taliban militia out of Kabul. The Taliban captured the city a month ago, giving it control of over two-thirds of the country. Masood's commanders at the front said warplanes belonging to Dostum flew two sorties over Taliban positions early yesterday and confirmed they had also bombed Kabul airport. Abdullah said he had no details of Dostum warplanes hitting residential areas in Kabul. "According to our information, the target was only the airport," he said. The assault was the anti-Taliban alliance's second try in less than a week at forcing the Taliban off the pass. Their forces are ranged out on highly exposed ground below the De Sabz pass, where their armour and men stand out against the desert sand. There was sporadic return fire from Taliban troops while Taliban jet fighters occasionally bombed from the air. *Reuters, Tustakhor, Afghanistan*

## Vietnam dials a revolution

### Jeremy Grant finds mobile phone mania gripping the country

Vietnam has a history of taking revolution in its stride. But it may not be quite ready for the latest one sweeping the country: telecoms.

Last week, Motorola of the US used a telecoms show in Ho Chi Minh City, the former Saigon, for the Asian launch of StarTAC, a cellular phone about the size of a cigarette packet.

Other suppliers such as Nokia, Ericsson and Siemens were also busy promoting their handsets, confirmation that mobile phone mania has gripped a country which a decade ago had only nine lines connecting it with the outside world.

Indeed, mobile phones costing \$600 are selling so well in Hanoi and Ho Chi Minh City that MobilFone - a \$341m venture between Vietnam Posts & Telecommunications (VNPT) and Sweden's Comvik - sees its subscriber base reaching 105,000 by the end of next year, from only 3,200 in 1994. Foreign companies have been quick to grasp that Vietnam's 70m people and rising urban incomes make it one of Asia's most exciting telecoms markets.

But it is also emerging as fertile ground for experimentation with new technology.



Vietnamese are embracing the mobile phone revolution

"The concern of many foreign companies, both manufacturers and operators, is that there will be too many types of standards and the marketplace becomes confused," said Mr Roger Barlow, Vietnam country manager for Cable and Wireless of the UK.

Investors have warmed to Vietnam, partly because its ambitious plans to upgrade its skeletal network offer the prospect of profits from revenue-sharing arrangements with local companies.

VNPT has said the country needs \$3bn invested in telecoms in the next four years in order to raise the number of telephone lines to 56 per 100 people from 1.48

lines per 100 people now. Last week, a VNPT official said Vietnam would also push ahead with the launch of the country's first satellite, the construction of a north-south, fibre-optic "backbone" link and involvement in two new international cables.

Foreign companies have not been slow to offer technology and are already lobbying hard to have their industry standards accepted.

NTT International of Japan hopes to introduce its personal handphone system (PHS). The Europeans hope to persuade the Vietnamese of the virtues of Digital Extended Cordless Telephone (Dect) while Korea

Telecom and some US companies are pushing CDMA, a US standard for cellular and wireless local loop systems. But, if recent telecoms history in Vietnam is anything to go by, Hanoi is unlikely to take sides soon - if at all. In the last decade, it has bought 13 different switching systems from a variety of countries.

Last month, Ho Chi Minh City Posts & Telecommunications started operating the country's first fixed wireless system, a network installed by Hughes of the US. Canada's Nortel is busy installing another fixed wireless system in the same city.

Some argue that Vietnam prefers to adopt a wait-and-see attitude, much as it has done in the car industry. "They're heading down a technology-neutral path," said Mr Andy Cobham, who handles regional regulatory issues at Motorola.

Hanoi's next regulatory move may be unclear, but it can be confident that the financing for its plans may not be hard to secure. "They'll get this on the basis of supplier credits. And let's face it, Vietnam is an attractive market and they (the suppliers) will be happy to do it," said Mr Barlow of Cable and Wireless.

## Islamabad sealed off to stop protesters

Islamabad was yesterday sealed off to prevent Islamic protesters from entering the Pakistani city to stage a large-scale protest demonstration, writes Farhan Bokhari in Islamabad.

Barricades were erected on all roads leading into the capital, virtually stopping incoming traffic, and police fired tear gas shells on the outskirts of the city to prevent the protesters' advance.

Ambulance workers said that at least 25 protesters were injured when police charged a crowd of about 10,000 with batons, to stop them from entering the capital from Rawalpindi, Islamabad's neighbouring city.

The protesters, belonging to the religious organisation Jamaat-islami, aimed to bring up to a million activists into Islamabad in order to protest against alleged corruption within Prime Minister Benazir Bhutto's government.

However, many were held up when trains coming to Rawalpindi - which doubles as the rail station for Islamabad - and public transport buses were stopped on the way.

Meanwhile, mobile telephones were put back in to operation last night after a 16-hour shutdown by the authorities to dampen the protesters' organisers.

Nevertheless, yesterday's events can only intensify worries for Ms Bhutto's beleaguered government.

A national strike called by businesses at the weekend caused widespread disruption to business activities in many parts of the country.

Many businessmen are opposed to the government's tax and austerity measures announced last week, which the authorities see as the key to restore troubled ties with the International Monetary Fund.

Ms Bhutto says that her government is under siege from conspiracies aimed at removing her from office but that she will not quit.

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## Australia moves to increase flexibility of labour

Legislation which will further deregulate Australia's labour market looks set to be passed by parliament later this year, following an agreement between the country's conservative federal government and one of the minor parties, which holds the balance of power in the Senate, parliament's upper house, writes Nikki Tsit in Sydney.

The Liberal-National coalition government announced at the weekend it had secured support of the Australian Democrats for its workplace relations bill, although at the cost of making some significant changes to its original proposals. The deal follows lengthy talks between Mr Peter Reith, industrial relations minister, and Senator Cheryl Kernot, the Democrats' leader, in the past month. Senator Kernot said the bill would still allow government to meet its objective of raising labour market flexibility but changes secured in talks would give additional safeguards for workers.

"The government doesn't have everything it wants. We don't have everything we want. But it's supportable," she commented. Mr Reith claimed "the integrity, the thrust, the direction, of the bill" had been retained. "By giving time in the extended way that we have, I think we can still say the package as a whole sits sensibly together and is practical... I think it's a very good bill."

In the March election campaign, the coalition argued there needed to be fewer impediments to hiring workers and increased flexibility in Australia's labour market - in part to help address the country's chronic unemployment problem.

The current legislation will provide for a new type of labour agreement - to be called an "Australian Workplace Agreement" - which management and employees will be able to negotiate directly and without union representation (unless this is sought).

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2 - 6 DECEMBER  
Electricity, Automation International Exhibition

2 - 6 DECEMBER  
International Exposition for Measurement, Control, Regulation, Automation, Engineering and Electronics Computing

# Time pressure 'puts Emu at risk'

By Graham Bowley, Economics Staff

The rush to introduce economic and monetary union by 1999 risks seriously undermining the European single currency from the start, the National Institute of Economic and Social Research warns today.

some issues will be overlooked or not properly resolved," says an article by Mr John Arrowsmith and Mr Christopher Taylor, fellows at Niesr.

operative monetary loosening, we see the Maastricht criteria as quite possibly unattainable," they say.

criteria are the brightest for a year. Germany, France, the Netherlands, Luxembourg, Belgium, Ireland, Finland and Portugal are all expected to satisfy the criteria.

But a lax reading of the Maastricht criteria could mean some countries will join Emu before sufficient convergence between economies has taken place.

# Compromise urged over supply of beer

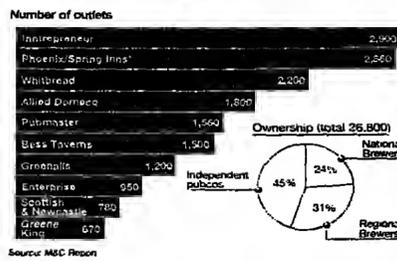
By Norma Cohen

UK government officials have proposed a compromise solution that would end the uncertainty caused by the European Commission over the ability of a "pubco" - a large pub chain not owned by a brewer - to control exclusively the supply of beer to the tenants of pubs it owns.

exempt from EU laws. UK brewers' exemption from these laws was recently extended by the commission until 1999 to give the commission more time to complete its review.

newsletter. Also, these would allow European brewers to become direct suppliers to UK pubs.

## Leading pub operators



This "tie" arrangement allows pubcos to buy beer in bulk at high discounts from brewers and then resell it to its tenants at a higher price.

Pub chains owned by brewers come under the exemption but independent pubcos do not because they are a new feature of the UK industry. Thus, the UK government is proposing changes to the leases of pubco tenants to try to persuade the commission to drop pubcos from its review.

MC Report estimates that 45 per cent of UK pubs are now owned by pubcos instead of any brewer.

Brussels last week to discuss the proposals, which consist of five possible clauses that pubcos could insert into leases with publicans.

A third option would allow the pubco to buy beer from brewers too small to fall within the net of competition authorities.

# Charity attacks supermarkets' ethics

By Graham Bowley and Peggy Hollinger

British supermarkets are selling food produced by farmers in developing countries who are working for unacceptably low wages in dangerous and degrading conditions, according to Christian Aid, the international charity.

South Africa, Thailand and Peru. It is calling for supermarkets to draw up a code of practice for their suppliers, and to mark clearly the countries of origin of their own-brand products.

international code of conduct. "If we band together as consumers, we can make a real difference in reducing the exploitation of some of the poorest people in the world," said Ms Short.

Christian Aid is calling for an independent monitoring body for supermarkets. Its report follows a series of high-profile campaigns by western charities and trade unions in industries such as toys, clothing, footwear and sports goods.

In a report published today, the charity claims to have uncovered "punishing" work conditions, pesticide poisoning, low wages and discrimination on farms and plantations in countries such as Brazil,

Ms Clare Short, the principal overseas development spokeswoman for the main opposition Labour party, is backing the initiative and will today seek to commit her party to greater emphasis on consumer sector ethics.

More than a quarter of the UK's imported food and drink comes from developing countries, according to the Christian Aid study. The charity hopes consumer pressure will force supermarkets to adopt a 12-point model code of conduct stipulating standards such as a minimum age for workers, working hours and conditions, and union representation.

Fifa, world football's governing body, has agreed to an international code of conduct to stop child labour being used in the manufacture of footballs. Fifa and members of the World Federation of Sporting Goods Industry meet in London next month to discuss extending the code to other products.

# Interest rates and tax 'must increase'

By Daniel Green

Mr Kenneth Clarke, the chancellor of the exchequer, today faces calls from independent economists to raise interest rates and taxes.

## UK NEWS DIGEST

# Call to reform financial rules

Mr Richard Farrant, chief executive of the Securities and Futures Authority, the City of London watchdog, has called for fundamental reform of the UK's system of financial regulation to unite under a single body the supervision of banks, fund managers and investment banks.

## SAVERS AND SAVINGS

Savers with the UK's fourth-largest mutually owned home loans and savings institution, Alliance & Leicester, will receive a flat-rate allocation of 250 shares, worth an estimated £1,000 (\$1,560) when it floats on the stock market next year.

The society is the first of three such large institutions hoping to float before next summer to unveil the terms of its proposed conversion. Halifax, the largest, with 8m savers and borrowers, plans to unveil details of its float in January, and the Woolwich is expected to make an announcement shortly after that.

J.P. Morgan, the US investment bank advising on the float, has estimated on the basis of current market conditions that the company could be valued at £2.8bn. On this basis, each share will be worth about £1.

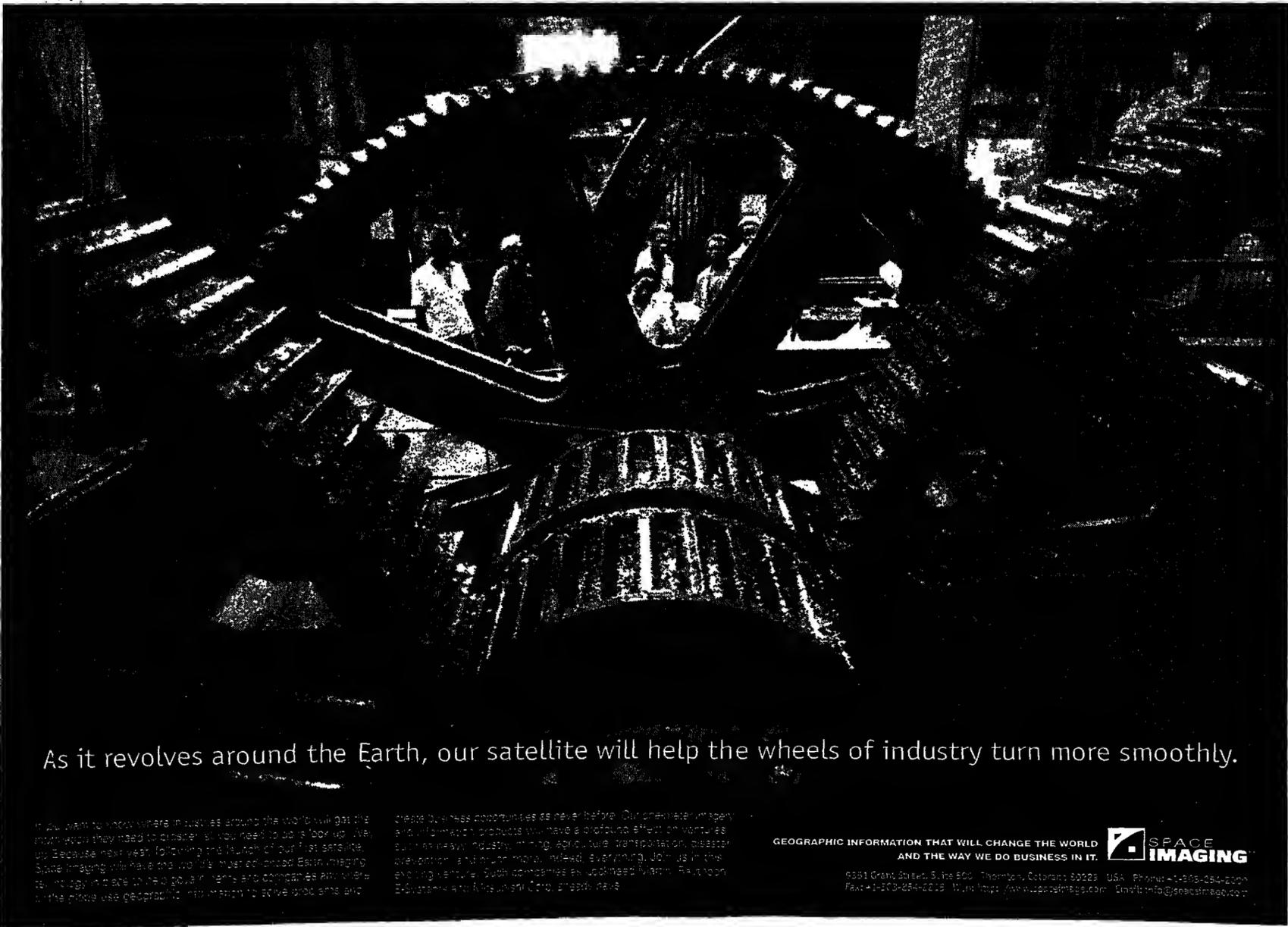
Alliance & Leicester made pre-tax profits of £288m in 1995 and has total assets of £23bn. In addition to its core savings and home loans businesses, the society owns Girobank, which operates one of the UK's largest telephone banking operations.

## BRENT SPAR RIG

Shell UK said yesterday that it hoped to complete a shortlist of about six proposals by the end of the year for the disposal of Brent Spar, the obsolete North Sea oil installation. A total of 30 proposals from 19 contractors are being looked at to find the best solution for Brent Spar, which was at the centre of a row last year over plans to dump it in the deep waters of the Atlantic Ocean.

At the moment the huge storage vessel is in a Norwegian fjord. Apart from the obvious option of breaking up the vessel for scrap, the outline proposals range from using it to create a wildlife viewing platform in Morecambe Bay, Lancashire, in north-west England, and a floating power station off Scotland to a wind-powered desalination plant or using parts to control coastal erosion on the east coast of England.

Shell UK emphasised yesterday that the shortlist had not yet been chosen and at the moment there were no preferred options.



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THIS WEEK

# Happy to be taxed for their tippie

It is Friday evening, it has just turned 6pm and you need a couple of bottles of wine for the weekend. Call in at the corner shop on the way home? Not in Sweden you don't. Retail sales of all alcoholic drinks stronger than a light beer are still under a state monopoly in Sweden, and in Norway and Finland for that matter. The liquor stores shut on Friday at 6pm and do not reopen until Monday morning.

Oh well, why not nip into a bar for a consoling drink? Ouch! A half-litre of regular beer will set you back the equivalent of \$4.25 (£2.72) and that's during Happy Hour. A glass of house wine costs the same. A single whisky will leave you at least \$6.50 poorer. Not only is the sale of drink still heavily regulated, drinkers are also burdened with some of the highest alcohol taxes in the world.

Thirsty visitors, especially from wine-drinking countries like France and Italy, shake their heads in disbelief that such rules

can still apply in Europe. Surely they must change now that Sweden and Finland have been members of the European Union for almost two years?

Certainly, pressure is building on the two governments to bring their alcohol controls closer into line with EU norms. (Norway, as a non-EU member, can continue to do what it likes). Brussels, backed by some of the big drinks makers, is keen to iron out the anti-competitive kinks inherent in the restrictions.

But the Social Democratic government in Stockholm is fighting a determined rearguard action to preserve its alcohol policies. In Strasbourg last week, Thomas Ostrom, the taxation minister, flatly refused to concede a European Commission demand that Sweden set a date for dismantling the restrictions it imposes on the amount of duty-paid drink

**DATELINE**

**Stockholm: the state's monopoly on the sale of strong liquor causes surprisingly little discontent among Sweden's social drinkers, writes Hugh Carnegie**

travellers can bring in from abroad.

Sweden and Finland won a number of concessions on their alcohol policies when they negotiated EU entry, including keeping their retail sales monopolies. Another concession was the

right, already exercised by Denmark, to restrict travellers from importing drink bought at fully taxed, but much cheaper, prices abroad.

Sweden currently limits travellers to one litre of spirits, five litres of wine and 15 litres of beer. The standard rule in the EU allows 10 litres of spirits, 90 litres of wine and 110 litres of beer.

Ostrom argued that the issue was a question of social policy - a matter for the Swedish parliament and out of the jurisdiction of Brussels or Strasbourg. His stance reflected a still powerful fear of alcoholism in Nordic countries that stems from the turn of the century when Swedes were drinking almost 60 litres of alcohol a year, some five times the average consumption in the EU today.

Present-day restrictions are the legacy of those earlier problems,

and low levels of liver disease and other alcohol-related diseases in Sweden continue to provide justification. But there is another reason why the government is so keen to keep up the barriers to booze. Taxes on alcohol make a significant contribution to funding the mighty machine of the Swedish public sector, making up more than 6 per cent of the total tax bill.

The strange thing - to outsiders at least - is that there is not much public pressure on politicians to ease restrictions on drink. People mutter with frustration as queues at the monopoly outlet - obscurely called the System Bolaget, or the System Company - spill out into the street on a Friday afternoon. But opinion polls show little demand for change.

Nevertheless, Swedes are increasingly voting with their

drinking arms. Although official figures show alcohol consumption at around six litres per head per year - much lower than in France or Germany, for example - actual consumption is reckoned to be much higher due to legal imports, smuggling and home-brewing.

Egon Jacobsson, head of Vin & Sprit, the state-owned distiller that makes Absolut Vodka, has joined local brewers in calling for lowering of taxes to staunch this flow, which is hitting their sales. He estimated earlier this year that smuggling and illegal consumption accounted for about 15m litres a year, equal to half the amount sold through the System Bolaget.

Anecdotal evidence of boozing is certainly plentiful. As many, if not more, drunken youths can be seen lurching about the centre of Stockholm on a weekend night as

in any other European capital. An industry has grown up in Scandinavia around overnight ferry tours across the Baltic Sea to take advantage of duty-free allowances. Citizens in Tallinn, the Estonian capital, count the advent of drunken Finnish tourists as one of the less attractive features of freedom from the Soviet Union.

The social argument for the tough drinking regulations is perhaps being undermined by the determination of those who want a tippie to find it willy-nilly, and the crumbling of frontiers in Europe is making it ever easier to circumvent the rules. Many Swedes believe it is only a matter of time before the country adapts to European norms.

But so long as the government reckons its tax income under the present regime exceeds the income lost to untaxed sales, it is unlikely to make changes. And the Swedish people will have to continue to remember to get to the System Bolaget before closing time on Friday.

## The Monday Profile: Ian Schrager, Schrager Hotels

# Cool hotelier remodels façade

Ian Schrager tries to keep the shine on the hip veneer which has clad his persona for two decades. But he is wasting his time. The façade has faded to expose a mellow, businesslike patina. He knows it, and you can see he is not unhappy with the change.

The star of New York's night club era - co-founder in 1977 of Studio 54, where a velvet rope at the door barred the uncool from the Warholian orbit - is today a hard-grafting hotelier.

Celebrity is now important to Schrager as a marketing device. But he drops business terms more often into his patter than the names of Mick Jagger, Madonna and the like. The famous, says Schrager, enjoy his five highly styled hotels, as do lesser mortals, because they represent a manifestation of popular culture. "I'm not talking about fashion. I'm talking about culture. Our species never loses the desire to be part of what's going on," says Schrager.

Decoded, the message is that Schrager has found a niche in the US hotel market in attending to a sophisticated, spunky, open-minded clientele which cringes from the globalised uniformity of most hotel chains.

Schrager is resurrecting a worn-out West Hollywood hotel, Le Mondrian, which long ago gave up its role as a muddled-headed manifestation of some other culture. The "Le" has been dropped and the horrifying daubed exterior which formerly pretended homage to Dutchman Piet Mondrian's neoplastic *Stijl*, has been painted white. Now, briefly, the place looks from the outside much as it did in 1959 as an apartment block.

But Philippe Starck, Franco's dauphin of design, will soon put a stop to that. The squashed lobby will be opened upwards and furnished by the self-styled "creator of fertile surprises". So will the toothbrushes and a tea bar. According to Schrager, the lobby will offer an "Alice in Wonderland" refuge from Sunset Bou-



levard outside. Guests will enter through a pair of cupboard doors scaled up to a height of 30ft.

When his personality change is complete in December, Mondrian will become a full-paying member of Schrager Hotels. Group income will rise from \$35m (£22m) a year now to an expected \$43m next year, and Schrager himself expects to be working on his next project, in London.

Teetering on the brink of his first overseas venture, Schrager is contemplating a step into the stock market. "I'm not sure I want to embark on a public offering. I don't understand the implications too well," he admits.

He accepts there may be dissent among US regulators about his early 1990s spell in jail after he and his late partner, Steve Rubell, were convicted on tax evasion charges. "Prison is like an illness that never really goes away," he says.

The financing of his ventures, which include the Delano, which opened last year in Miami Beach, is underpinned by equity partners and respected investors, Apollo Advisors and Amstar. Operational management has been stiffened with top executives from Omni Hotels and South Africa's Sun City.

Schrager works with his nose.

Christopher Parkes

## FT GUIDE TO Profits warnings

Profits warnings seem to be in the news. Yes, they are. Three prominent European companies issued warnings on one day last week: SAP, the German software group, holiday company Club Med, and PolyGram, the entertainment group.

Is this a bad sign for European companies? Not necessarily. It's hard to see a link between the problems of the various groups. Only Club Med could blame the European economy, saying it had caused consumers to opt for cheaper holidays. What the trend may signify, however, is that European companies are being more open with their shareholders.

And that is good? Yes, although you might not think so if you were a shareholder in SAP and saw your shares fall by nearly 25 per cent. But there has been a feeling among international investors that European companies have not always been generous in the information they give out to shareholders. A favoured few (bankers, companies with cross-shareholdings) were perceived to be in the know. So, as far as investors are concerned, better bad news than no news at all.

So why did the shares in SAP fall so much if it was doing the right thing? SAP is one of the few European companies to compete in the international software market, a high-growth area. That means its shares had earned a premium price/earnings rating. When earnings prospects faltered, the shares suffered a double whammy - first, as analysts downgraded earnings forecasts, second, as investors reduced the rating, or multiple, they would pay for those earnings.

Why don't companies simply wait until the results are due to tell the worst? Because they do not want to create a "false market". If they

have material information which might affect the share price, they should release the news to the market, so investors are not suckered into paying too much for their shares.

So the UK and the US corporate sectors are paragons of virtue in this area? Not exactly. But regulators have probably curbed some of the worst abuses. Old City of London hands will tell of how, a decade or so ago, they were regularly tipped the details of leading companies' results a day before they were announced to the world. Plenty of massaging still goes on today.

What does massaging involve? One tactic is to tip off a Sunday newspaper. A story might suggest that earnings estimates are too high. It might not be an ideal system but at least you can argue that all shareholders can read the paper.

Another method is to use the company's stockbroker. If it starts to downgrade its profits estimates, you can be pretty sure that bad news is on the way. Not that house brokers are always accurate, but they tend to be better than most.

Indeed, most analysts will try out their profit forecasts on the company concerned. John Smith of Backet Securities will ring up the finance director of Acme Conglomerates and say: "I'm thinking of going for £100m this year." And the man at Acme might reply: "Have you allowed for the costs of our new factory at Cleethorpes?" or words to that effect.

Is there not a danger of insider dealing? It is a fine line. But the company will not say: "We're going to make £97.3m." It is in the company's interest to make sure the market's expectations are not too far off base.

Why? Companies that disappoint markets can see their reputations

suffer terribly. Hell hath no fury like an analyst whose judgment has been botched. Shares in Matthew Clark fell by almost half in three sessions after it warned that alcopops (alcoholic lemonades and the like) were eating into the cider market. Investors were totally unprepared for the news.

I expect they needed something more than alcoholic lemonade to help them recover. Well, they certainly weren't toasting the health of the Matthew Clark management. And that would be bad news for the company if a predator came along or if it wanted to issue new shares to help it expand. If the market is prepared, it can respond well. ETR was widely expected to cut its dividend this year. When it did so, but accompanied the bad news with a big restructuring programme, the shares rose on the day.

So what is best practice? Companies are nervous about briefing individual analysts. So they tend to hold more formal presentations to which all analysts are invited, to make sure the news is disseminated widely. Managers have to be really careful in the US. Investors are quite willing to sue companies and their directors if they feel they have been misled about prospects. Corporations will shortly vote on Proposition 211, a measure which companies feel will increase the risk of "frivolous" lawsuits.

These days sophisticated companies have investor relations departments which will well bypass the analysts and brief the institutional investors directly. That way, they are kept abreast of strategy as well as the short-term earnings outlook. However, any substantial change in a company's prospects should still be announced via the Stock Exchange or to the shareholders at an annual general meeting.

Phillip Coggan

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**Stephanie Flanders · Economics Notebook**

## Weighing up the lesser evil

Middle America is caught between a rock and President Clinton

The dominant theme of the past two US elections was the economic angst of the "forgotten middle class", who felt they were working harder for less pay. They took their sense of downward mobility out on whoever was closest to hand: President George Bush in the case of the 1992 elections, the Democrats who ruled Congress in the case of the November 1994 vote.

The Republican, Patrick Buchanan, tried to put the same head and gutter issues on the campaign agenda this year. But for all the talk of downsizing, and fading American dreams, Clinton looks set to be re-elected next week: less on a wave of anxiety than of widespread ennui. Why has he had such an easy ride?

One answer would be that the broad mass of voters feel better off today than four years ago. The vagaries of the economic cycle have served Clinton better than his predecessor. Real GDP has grown by 2.7 per cent per year, on average, since Clinton took office, as compared with a 1.2 per cent average rate under George Bush. Clinton has also been able to keep his promise to create 10m new jobs during the four years. In fact, total non-farm payrolls have risen by 10.7m since the end of 1992.

But these headline improvements have not necessarily had much effect on the average pay packet. The persistence of the 1990s problems of rising inequality and declining real wages into the first half of the 1990s is well brought out in the latest survey

of income and employment prospects by the Economic Policy Institute, a US think tank.

It notes that the real hourly earnings of the average production or non-supervisory worker have fallen 0.6 per cent per year since 1989. These figures exclude many sectors that have grown fastest recently. The 0.6 per cent decline compares with a 1 per cent average annual fall in real earnings of line workers in the 1980s. But such employees' wages were still 3.5 per cent lower, in 1996, than at the end of the 1980s.

A cynical explanation for the failure of such figures to translate into rousing campaign slogans might relate to the difference between the average worker and the average voter. For example, young people have been much worse affected than other groups, but are less prone to take their frustrations out on politicians. Only 35 per cent of eligible 18-20-year-olds and 45 per cent of 21-24-year-olds voted in 1992, compared to a 61 per cent turnout for the population as a whole.

So, in theory, the hard-to-forget middle class voter has not really been affected by the continued decline in conditions at the lower end of the labour market. But the young or disaffected are not the only ones to have done badly in the 1990s. The latest bout of rising inequality has, if anything, involved a larger share of US voters. "Only" 60 per cent of workers suffered declining real incomes in the 1980s, but incomes have fallen for all but

state medical benefits system - Medicare - against his opponent, despite the fact that the Democrats' own proposals for reforming the system would cut growth in Medicare spending by only very slightly less than the Republicans'. More than 70 per cent of people over 65 voted in 1992, more than any other age group.

The second, more speculative, explanation would be voters' historical associations with each of the two main parties. The electorate has traditionally turned to Democrats at times of economic insecurity. And, in a sense, the postwar record supports them.

Doug Henwood, editor of the Left Business Observer, has calculated that, since 1949, growth under Democrat presidents has averaged 4.3 per cent, compared to 2.3 per cent under Republi-

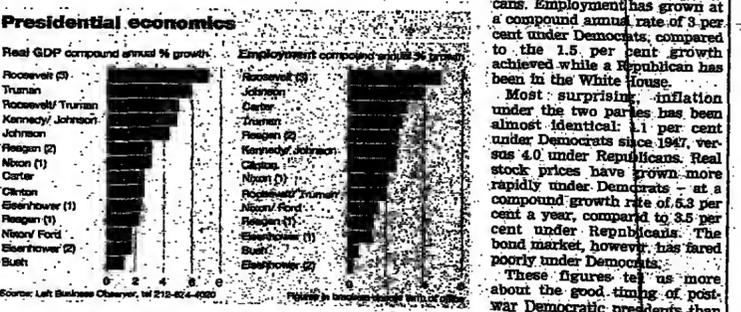
caus. Employment has grown at a compound annual rate of 3 per cent under Democrats, compared to the 1.5 per cent growth achieved while a Republican has been in the White House.

Most surprising, inflation under the two parties has been almost identical: 1.1 per cent under Democrats since 1947, versus 4.0 under Republicans. Real stock prices have grown more rapidly under Democrats - at a compound growth rate of 5.3 per cent a year, compared to 3.5 per cent under Republicans. The bond market, however, has fared poorly under Democrats.

These figures tell us more about the good timing of post-war Democratic presidents than about their economic policy skills. But Republicans are seen as the political guardians of bondholders and big business, neither of whom has risen in public estimation during the 1990s.

Amidst US votes, seemed happy to turn to Republicans to address their economic concerns in the Congressional elections of 1994. But Bob Dole has found it hard going this year. His high-profile tax cut proposals have gone down badly, most people associating them with the deficit-expanding tax cuts of the early Reagan years.

So, if there is a choice between a return to the 1980s and another four years of Clinton, voters seem to have decided that the Democrat is the lesser evil. Hardly a ringing endorsement - but the votes count, not the sentiment attached to them.



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MANAGEMENT

Ask a Hong Kong businessman about his worries, and he is more likely to fret about the challenges of expansion, succession and family affairs than the risks of next year's return to Chinese sovereignty.

Such a response is understandable. The rise of regional economies and next year's return to China provide the potential for another phase of rapid growth in Hong Kong's corporate empires. But whether they can capitalise depends on how they adapt the systems of family management and ownership on which their success has been built.

This is not just a Hong Kong concern. Companies across the region are based on family foundations and are now facing similar pressures as they expand. But with some of the territory's big businesses approaching potentially thorny successions, and with the handover looming, Hong Kong's challenges are particularly pressing.

For Mr Victor Fung the stakes are clear. The chairman of Li & Fung, the territory's oldest and largest Chinese trading group, argues that Hong Kong companies must retain the flexibility of family businesses while becoming more professional. "If family-run companies do not take up the challenge, their prospects are likely to be bleak," he says.

Potential pitfalls extend beyond the hazards of feuds and the risk of handing power to a profligate or incompetent son. Expansion places strains on management and capital resources, while the liberalisation of regional markets and the rise in competition from western multinationals increases the need for professionalisation.

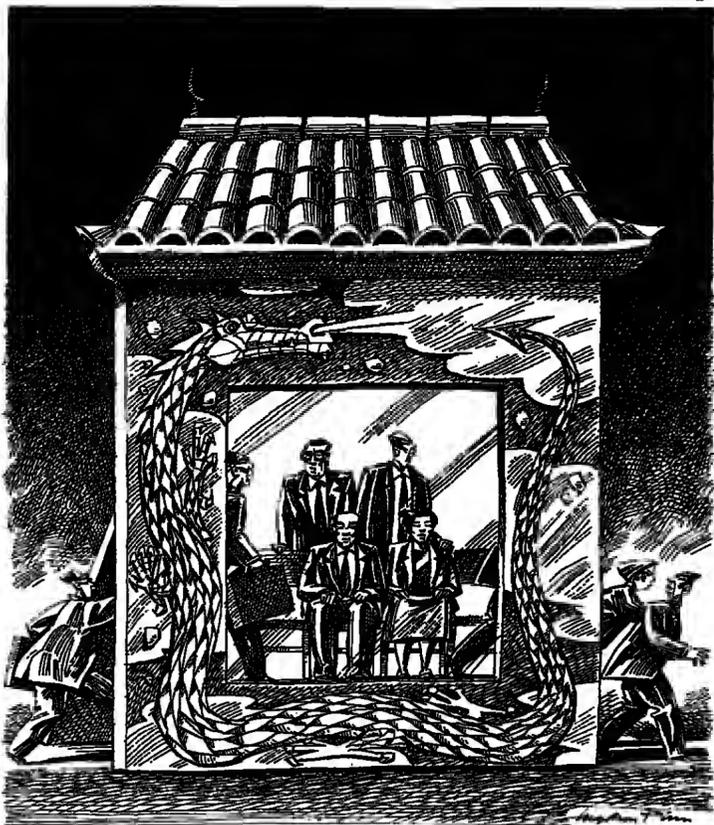
"As the company expands you run out of brothers or cousins who make good managers," says Mr Vincent Lo, founder and chairman of Shui On, the construction group. Such constraints have become increasingly serious as family enterprises have outgrown national boundaries, adding to the complexity as well as the size of management.

"For family-controlled companies it is one thing to manage a small and tightly defined operation," says Mr Fung. "But it is quite another to manage the large multinational corporations that have begun to develop as a product of past success."

Capital can also be constrained by family ties. "We needed funds, but the family would not introduce new shareholders or go public," says the chief executive of one struggling textiles group. "By the time they accepted the need for a flotation we were no longer attractive to investors."

Hong Kong companies are responding to these challenges. Li & Fung, for example, has completed a complex restructuring since the late 1980s, when Mr Victor Fung and his brother William bought out family interests. But although day-to-day business is now dominated by professional managers, the trading company has sought to retain the entrepreneurship of a family business by breaking up into separate divisions. "We have 50 business units each headed by a small 'John Wayne'," says Victor Fung, citing profit-share schemes and variable remuneration as motivation.

While such family management



# The family in the frame

Adapting systems of control and ownership is the key to Hong Kong's success, says John Redding

huy-outs remain rare, many companies have increasingly turned to professional management. "There is less gut feel and a lot more number-crunching," says one senior industrialist.

Mr Li Ka-shing, who started by selling plastic flowers and now controls one of Asia's biggest conglomerates, has a reputation as an autocratic manager. But while keeping a firm grip on strategic issues, he has delegated operational decisionmaking to subsidiary chiefs, such as Mr John Meredith, the head of the group's port operations.

Smaller businesses such as Vitasoy, a soft drinks company, are increasingly addressing the issue of professional management.

by his father in the 1940s. Mr Henry Tang, managing director of Peninsula Knitwear and chairman of the Federation of Hong Kong Industries, believes such views have taken hold across corporate Hong Kong. "There is no longer a belief that family members have a right to a job in the family business," he stresses, however, that professionalisation need not exclude family participation, a point supported by the army of offspring returning to family businesses armed with MBAs and corporate experience.

The result of these shifts is a growing number of companies in which family management is curbed, control is retained, and access to capital is secured. Li & Fung, for instance, floated its trading arm in 1993, while Mr Lo at Shui On is mulling a Hong Kong listing to raise funds for expansion, although most of the shares

would remain in his hands. Despite the advantages wrought by such changes, however, many in the territory's business community caution that a balance must be struck. "Entrepreneurial spirit is Hong Kong's advantage," says the son of a tycoon. "You could wipe that out by just importing western models."

A case in point is the property sector. "It is ideally suited to centralised management," says Mr Gordon Redding, professor of management at Hong Kong University. "You can operate it from one desk. As long as the person at the top has expertise, he gets a good reputation and becomes a magnet for capital. It is a much more efficient system than western bureaucracies and feasibility studies."

Several of Hong Kong's top tycoons support this view. Mr Lee Shau-kee, the founder and chairman of Henderson Land

Development, keeps a tight grip on the company's operations and takes all meaningful decisions. His record in building one of the territory's biggest developers has attracted funds for expansion. On the mainland, his personal ties with top leaders have helped secure contracts and prime locations.

For all family businesses, however, the challenge of succession remains a thorny problem. Many of the territory's companies were established by migrants fleeing the 1949 communist takeover on the mainland and are now confronting generational change.

Mr Lee says he is fortunate to have sons who want to follow in his footsteps. But while he is training them to take the helm at Henderson - appointing the elder as managing director of Henderson China - he is evasive about the risk of rivalry and the question of whether his sons can fill his shoes.

Of broader concern are the strains imposed on family businesses by the importance of the founder and divergent aspirations among their offspring. "The psychological cement breaks down," says one Hong Kong banker. "The legitimacy of the organisation derives from the person who built it. So as the family gets bigger and the children want to do other things it is harder to hold together."

The strains of maintaining family businesses were evident in the corporate empire of Sir Y.K. Pao, the late shipping and property magnate who had four daughters and no sons. Management of the group was split in the 1980s, with one son-in-law taking the helm at Worldwide Shipping, another at Wharf, the property and infrastructure operation, and a third at World Wide Investment, the financial arm.

"It was an attempt to maintain some sort of cohesion," says one investment banker. "But it is really a step in the splintering of the group." He sees similar forces at work in many family-based businesses, from the Great Eagle property company, where two of the founder's sons have struck out alone, to Mr Li Ka-shing's family, where Richard Li built up a satellite TV business before turning to property, and Victor, the elder son, has played a prominent role in infrastructure.

"There will be a fragmentation of the families and the businesses of corporate Hong Kong," predicts the patriarch of one family company.

While such upheaval may appear inevitable, it is not unwelcome. It forges informal networks between groups and provides a local version of unbundling. "It is a beneficial and efficient process," says Professor Redding. "The family and the company breaks into new bits, and they go off and do it again."

One implication, says Mr David Li at the Bank of East Asia, is a likely surge in corporate reorganisation, mergers and acquisitions. Such restructuring, he believes, will help maintain the dynamism and competitiveness of corporate Hong Kong. And for the next generation of the territory's business leaders it suggests that fortunes might be made buying, selling and dismantling some of the companies their forefathers built.



## PARTNERS Ann Summers

David Gold, 31, says that his wife, Ann, is the driving force behind the success of the company. He says that she is the one who has the vision and the drive to succeed. He says that she is the one who has made the company what it is today. He says that she is the one who has made the company a success.

Ann Summers is a woman of many talents. She is a businesswoman, a mother, and a wife. She is a woman who has made a name for herself in the world of business. She is a woman who has shown that women can be successful in business. She is a woman who has shown that women can be leaders. She is a woman who has shown that women can be entrepreneurs.

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Fiona Lafferty

# Bleary-eyed on Central Park South

In 1989 Robert Stutman, then the top federal narcotics agent in New York, launched one of the city's biggest ever manhunts to smoke out the mobster who killed his colleague, Agent Everett Hatcher. Eventually the Mafia, tiring of the beat, delivered Stutman his prize: the corpse of Costabile "Gus" Farace, killed in a hail of bullets at the wheel of his Pontiac on 51st Street, Brooklyn.

Companies are simply throwing money away by failing to address the issue, Stutman says. Drugs require a urine test, but usually the problem is alcohol, which requires only a breath test. All you have to do is employ Substance Abuse Technologies and have them whip out their breathalyzer whenever you have reason to believe an employee is under the influence.



Richard Tomkins in New York

man has been in the room barely five minutes, and already he is on to me. I'll tell you one thing: next time I take out the Pontiac for a spin, I will be steering well clear of 51st Street, Brooklyn.

"Excuse me, do you work here?" With uniforms a thing of the past, distinguishing shop assistants from customers has become an exercise in forensic science. And if there is one thing worse

than the indignity of being asked if you are a shop assistant, it is the embarrassment of mistaking someone else for one.

Still, things are changing in the US. These days, assistants in the trendier stores can be identified by the radio headsets they use to communicate with supervisors or the stockroom without leaving the customer - for example, to answer inquiries or call up products not on display. Apparently, the idea spread from San

Francisco restaurants, where waiters use headsets to speed up communications with the kitchen.

This seemed to me an excellent idea until the day I went shopping in my local supermarket wearing a personal stereo. I was idly probing the exotic fruit when a woman approached me with a bag of Desert Glory cocktail tomatoes demanding to know why they had passed their sell-by date. Too complused to protest, I politely directed her to the proper authorities; but the incident was enough to convince me that uniforms were due for a comeback.

The FT's New York bureau is in East 60th Street. Each day, a beggar - homeless person, if you like - sets up camp outside the subway station on nearby Central

Park South. He is fit, intelligent, articulate and good-looking, if a little unkempt. He has painted elaborate signs, one of them quoting Goethe, appealing for donations of money and clothing for the homeless.

I sense you are already thinking what I am thinking: if he devoted as much effort to working as he did to begging, he would be a lot better off. So last week, I asked why he didn't. He said there was no point because the capitalist system was basically a pyramidal structure doomed to collapse, and that a revolution was looming, probably before the turn of the century.

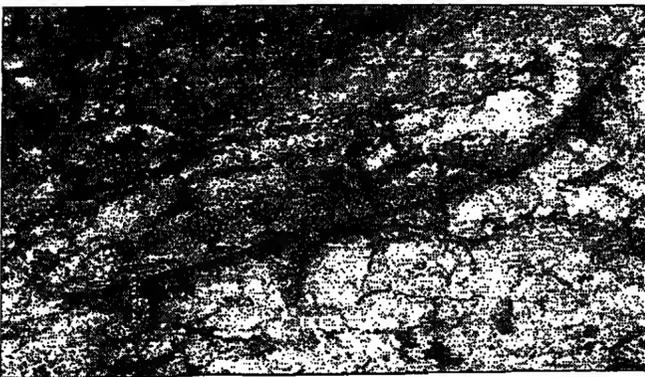
Fair enough; but it emerged that there was another side to the coin. "People tell me to get a job, and I tell them: I already have one," he said. "Begging is a

full-time occupation. I'm running a small business here; I have to deal with advertising, marketing, psychology and promotion. I work here seven days a week, and if I don't turn up on time, people want to know where I am."

He refuses to say how much he earns. "But I eat well, meet girls; I have a good living." Indeed, he has just returned from a shopping spree to equip himself with enough high-tech thermal clothing and camping gear to stay cosy during the lucrative winter begging season.

Roll on the revolution. Meanwhile I'm off to the nearest sporting goods store to kit myself out with a pair of long johns and a tent. I'll see you on Central Park South.

Lucy Kellaway is on holiday



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BUSINESS EDUCATION

Victoria Griffith on a concept that has moved out of the health club and into computers  
Trainers to make you sweat

Hollywood stars learnt the advantages of personal trainers long ago: why sweat in public when you can do it in private? Now technologically challenged chief executives are applying the same philosophy to computer training.

once blithely delegated word-processing duties to their personal assistants, now find themselves at a disadvantage without multimedia computer skills.

assistant to read their e-mail for them during the day, but there are confidentiality problems with that," says Michael Baird, a personal trainer at New Horizons.

reluctant to own up to computer illiteracy. The image of computer huffs has shifted dramatically over the past few years from bespectacled employees in dead-end jobs to billionaire hotshots like Bill Gates, the Microsoft chief.

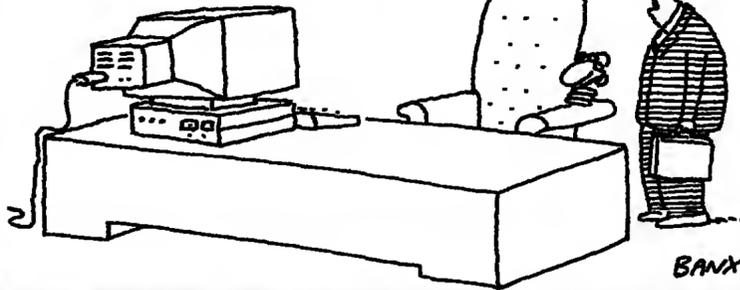
get more computer training, and they're right: it is important," says David Spina, president of State Street Bank in Boston.

Catapult says it provides personal trainers to about 8,000 top executives in the US over the past year, at a cost of up to \$2,000 (\$3,000) for each four-hour session.

"Clearly the trend is there," says Stephen Lynch, a training manager at Catapult. "Three years ago, personal computer training was virtually non-existent. Now it's about half our business and growing fast."

The Internet has turned basic computer knowledge into an essential management tool. Technologically ignorant executives, who

"FIRST, WE'LL HAVE TO DEAL WITH YOUR TECHNOPHOBIA."



BANK

NEWS FROM CAMPUS

Executives jet from Bangalore to Boston. The Sloan School at MIT has got together with the Indian Institute of Management in Bangalore to offer a two-week executive course to senior Indian executives.

The course uses examples of marketing in both a real company and a fictional one. Xebec: UK, 010800 585889

How to acquire that savoir faire

If you or your employees need to acquire foreign language skills, then the London Language Show could be the place to visit. A series of business language seminars will take place at the show, which runs from November 7-9.

Marketing course via multimedia

If you are interested in studying the marketing element of a master of business administration (MBA) course without all the accounting, organisation and general management, Xebec, the interactive learning company, has launched a multimedia CD-ROM training package intended to deliver just that.

Going Dutch gets a whole new meaning

Many business schools vie to have the most international MBA class. They would be hard pushed this year to beat RSM Erasmus in Rotterdam, where just 11 per cent of this year's class of 120 are Dutch.

CONFERENCES & EXHIBITIONS

NOVEMBER 12 EVA: An Integrated Management Framework for Creating and Enhancing Shareholder Value. An intensive one-day executive seminar led by two of the foremost authorities on shareholder value, Joel Stern and G. Ernest Stewart of Stern Stewart and Co. on the principles and applications of EVA. How to develop and implement a framework for financial management and incentive compensation using Economic Value Added.

NOVEMBER 12 Finance Women. The Chartered Institute of Bankers Evening seminar to be held at the Barbican. This topical event will highlight the challenges confronting today's finance women. Special offer £50.00 for VAT. Contact: Kathy McCall, CIB Training & Events. Tel: 0171-444 7117 Fax: 444 7115 LONDON

NOVEMBER 19-21 Data Warehousing '96. Europe's premier conference and exhibition devoted to data warehousing and related issues. The multi-track conference explores critical, technical, organisational and business success factors, including world-class speakers and case studies from the US, UK and Europe.

DECEMBER 2 Doing Business with China: Business Opportunities and Challenges. Doing Business with China is challenging and requires careful preparation, market research, project studies, evaluations and investor advice. This conference will bring together experts who will discuss their experience of establishing strategic positions within China.

DECEMBER 11 Transformation in the Gas Industry: Meeting the challenge of competition. With incumbents and new players alike seeking to build strategies for success in the competitive gas market amidst increasing customer demands, this conference provides an essential forum to debate the latest issues.

UK Direct Taxation. 2 December, London, £295 + VAT. Topics Covered Include: Administration of taxes, Structure of Income, Corporation and Capital Gains Tax, Those liable to UK Tax, Income and Gains liable to UK Tax.

UK Corporation Tax. 3-4 December, London, £595 + VAT. Topics Covered Include: General principles of UK corporation tax, Advanced corporation tax, Relief for capital expenditure, Case study embracing principles already covered, Relief for trading losses and associated group relief, Other group reliefs, Capital gains and losses, Treatment of interest paid/received, Foreign Exchange gains and losses.

NOVEMBER 4 FT LIMITING PROFESSIONAL LIABILITY. Senior Pierre Horsfall, President - Finance and Economics Committee, States of Jersey; Mr Colin Sherman, UK Solicitor Partner, RPNAG; Mr Joby S. Rogers, Senior Partner & Chief Executive, Deloitte & Touche; Mr Robin Ellison, Consultant - Hammond Suddards, Member - Investment Committee, NAPP; Professor Steven Matjoo, Director, Maastriech Accounting and Auditing Research Center, University of Limburg and Mr Jeffrey Peck, Managing Director - Office of Government Affairs, Andersen Worldwide are among the experts who will address this highly topical one-day conference.

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NOVEMBER 19-27 INVESTCITY - Investment Opportunities in Polish Cities KOOPERACJA - International Small Business Fair. The largest organizer of trade fairs in Poland and one of the largest in Central/Eastern Europe. 15,000 exhibitors from 58 countries and 950,000 visitors in 1995 Poznan International Fair Ltd.

DECEMBER 22 Security in Retirement: The Stakeholder Pension in Practice. Speakers are: Harriet Harman MP, John Donham MP, Paul Johnson, Keith Boddel-Perce, John Parson, Or Am Robinson, Caroline Johnson, David Yandell, Ron Taylor, David Duval.

DECEMBER 12 & 13 FT WORLD PULP AND PAPER. The fifteenth FT World Pulp and Paper conference will provide a forum in which experts from the industry will provide up-to-the-minute information about price movements, supply and demand.

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NOVEMBER 4-6 Data Mining and Data Warehouse '96: Interaction of Information and Decision Technologies. The complex interaction of information and decision technologies and their application to business solutions are explored by NCR, IBM, SQL, ISL and SPSS, plus expert reviews and end-user case studies.

NOVEMBER 21 & 22 The Petrochemical Industry - What Next: Old World/New World. The 1996 FT petrochemicals conference will review developments in world markets and assess the prospects and challenges facing this key industrial sector.

NOVEMBER 25-26 Third Annual Global Emerging Markets Investment Management Conference & Companies' Forum. Major international conference looking at global emerging debt & equity markets.

DECEMBER 3-5 Auditing the Dealing Room (De-mystifying the Treasury function). Three day training course designed specifically for internal auditors and financial institution inspectors charged with examining the on-going activities of their Treasury operation.

JANUARY 16 Restructuring in the Electricity Industry: 1996 and beyond. The Economist Conferences' annual event for the Electricity Industry has been designed to meet the information needs of the key players both in the UK and Europe.

JANUARY 24 Transformation in the Rail Industry: Strategic responses to competition. The rail market in Europe is becoming less regulated and more competitive.

NOVEMBER 5-6 Practical Dealing course - Money market. Training in traditional Cash markets and short term derivatives dealing - risk identification and evaluation, product pricing, position management - WINDAL, PC based dealing simulation and practical exercises.

NOVEMBER 19 Fifth City of London Central Banking Conference. Marketing policy, regulatory reform, risk, the Euro & Gold are themes of this conference developed together with CBI.

NOVEMBER 28-29 Transforming the Finance Function: A New Way to Add Value to the Business. The future of many organisations rests with the finance department and its ability to service, support and, where appropriate, drive other parts of the business.

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SPORT / ARCHITECTURE

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Baseball's sweet return to popular acclaim

In the view of New York Yankees manager Joe Torre, whose team clinched their first World Series baseball title since 1978 in New York on Saturday, with a 3-2 victory in the sixth game against the Atlanta Braves: "Baseball's definitely on the way back."

ity with fans squandered during the notorious labour dispute that wiped out the 1994 World Series. The Yankees' win on Saturday came a day after Torre's brother Frank had successfully undergone heart transplant surgery. Torre, who was born in Brooklyn, added: "I can't believe how many people prayed for me just because I haven't been in a World Series and because of my brother."

Lamorlaye, a few kilometres from the centre of French racing, Chantilly. Or at a racehorse auction in England, whispering to an equine vet who is telling her something about a horse that he has decided he will tell no one else. If you are a male, and if she likes you, Camp-Simpson will refer to you as a "dolly". Her French jockey, Patrick Alan Sauvati, is a doll. "What a doll! Such a wonderful horseman!"

And, being cool, she does not mind if you ask about her husband. "It's Harry," she told me the other day. "Harry Camp-Simpson. A retired millionaire who made a quiet fortune in abrasives. Lives in Hampshire. I see him on a regular basis. He beelines across to Paris in his Bentley to check on me. But remember what they say, Michel: a rich man's wife is never rich. Which is why I have my banker, my gorgeous, beloved Duma."



The New York Yankees all-of-a-huddle after Saturday's World Series-clinching 3-2 victory over the Atlanta Braves

at the lowest level, up to about \$16,000. "Training fees are similar to the UK's: around £30 per day including vet, farrier, insurance and gallop fees. However, transport (for horses) to all the Paris tracks is free, paid for by the French Jockey Club. And for horses in corporate ownership, the company should be able to claim part of the running costs as a marketing expenditure. Likewise, some

of the expenses of corporate entertainment can be offset against tax. And (as is common elsewhere) no tax is paid on prize money." Camp-Simpson plans to buy ex-Flat racers in Britain for £10,000 to £20,000 each, and school them at Lamorlaye in preparation for French jumps races. As a pupil-trainer in France, she worked with two top trainers, Alain de Roger-Dupre and Francois Dou-

ma. Before that, she trained and rode Arab horses (as opposed to thoroughbreds), winning pots of prize money, which brings us back to her "banker": the beloved Russian-bred champion Arab racehorse known as Duma. Duma, now nine, was celebrated in Russia. But one day her owners, wanting to return her to France, loaded her into a rough truck and drove her across Europe. Eventually, Camp-Simpson bought

Duma for a pitance, £2,000, at England's Newbury horse sales, nursed her back to health, and made Duma a champion, again. Duma's first foal was sold by Camp-Simpson for £112,000. The mare's most recent foal fetched \$54,000. And Camp-Simpson says Duma herself is now worth £250,000. When I told Camp-Simpson I wished her many future winners, she told me I was a doll.

To New York last Friday the Aga Khan, spiritual leader of the world's Ismaili Muslims, received an award for his part in the promotion of architecture in the developing Moslem world. The Hadrian Award of the World Monuments Fund is presented annually to an international public leader whose patronage has greatly enriched the appreciation of world art and architecture. The Aga Khan's own award programme, and the work of his cultural foundation, are convincing examples of enlightened patronage.

Colin Amery • Architecture

Aga Khan's award influences the stars

selection of winning projects from the entire Moslem world. It grew from the Aga Khan's frustration that western ideas of social and technological improvement were not in tune with the best Islamic traditions, both communal and architectural. During the oil boom years of the 1970s and 1980s in particular, large areas of the Moslem world were transformed into anonymous and insignificant places that simply reflected the industrialised

homogenisation of the globe. The architectural traditions of the Moslem world are those of a flexible formalism that has developed from links with nature. Water, for example, is always present in Islamic architecture, often triumphantly displayed in the great gardens of the Moghul tradition. Themes from nature combine with virtuous geometric performances encouraged by the Koranic injunction against figurative representation. Look at the

carpets of the Islamic world and you sense the patterns of nature at your feet. The Aga Khan Award encourages the preservation of the past only when it represents architectural excellence. In the last round of awards, announced last year, there were five winners who powerfully developed the links between shelter and conservation. In the old city of Bukhara in Uzbekistan the excitement of becoming a new republic has

caused regeneration of the capital as a Moslem city. The whole activity of restoration and rebuilding by the Restoration Institute of Uzbekistan and Tashkent has been adopted by the people as a crucial reassertion of their cultural identity. The same is true in Sana'a in the Yemen and in some of the older quarters of Tunisian towns - especially the commended Hafsa quarter of Tunis. In Hyderabad in Pakistan the "incremental

development scheme" at Khuda-Kid-Basti has solved the problem of housing the poor. The key is the provision of land and the gradual funding of self-built houses and services as incomes allow. Through the award, the "stars" of the international architectural scene have been forced to consider the needs of the developing world. Ecological as well as architectural degradation has been critically examined by the

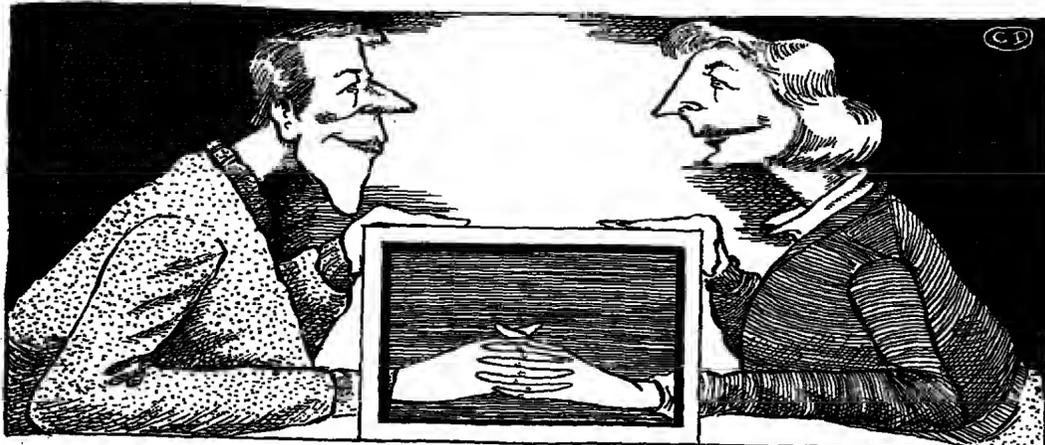
award juries, and benefits have been felt on both sides of the "development divide". There has sometimes been resentment when princes interfere in the profession of architecture. But the Aga Khan demonstrates that influence can be used objectively, providing it is supported by the freedom of informed intellectual discourse held in public. He is not promoting a dogma, nor is he against the new. Fundamental to the success of his award programme has been his awareness of the needs of those parts of the world where the people live on less than a dollar a day. He shows that architecture can help at all levels, from monument to shelter.

Advertisement for FT Discovery, featuring a fish and the text "Fed up with fishing for business information?". It describes the service as a solution for company information, business news, and real-time news. Contact details include phone number +44(0) 171 825 8000 and email ftdiscovery@ft.com.

A collection of financial and business advertisements. Includes "BERKELEY FUTURES LIMITED", "Market-Eye", "KNIGHT-RIDDER'S FUTURES MARKET DATABANK FROM \$370", "SHARES - TAX FREE", "Fast Fills. Low Rates.", "OFFSHORE COMPANIES", "MURPACE", "Signal", "CITY INDEX", and "Petroleum Argus European Natural Gas Report".

A collection of financial and business advertisements. Includes "THE WEEK AHEAD", "DIVIDEND & INTEREST PAYMENTS", "UK COMPANIES", and "BOARD MEETINGS". It lists various financial instruments, company names, and meeting dates.

MEDIA FUTURES



# Rifts appear in Net love affair

Cyberchat is not real life, but then what is? asks Victoria Griffith

Cyberspace romance has become a favourite topic of US talk shows and tabloids. Interviewees often complain that their husbands and wives were stolen by virtual homebreakers, while others reminisce about their romantic escapades on the Internet.

Grass-roots fascination with such matters reflects a sense that Net-based communities are unique, and may have a profound impact on so-called real life. Yet a growing number of observers believe the days of Net-based communities are numbered.

If they are right, the Net may soon cease to exist as a separate society, and become little more than a communications research and entertainment medium. Rather than using the Net to communicate with people they never meet, the theory goes, people will rely on cyberspace as a communications support for real-life relationships.

"The Internet doesn't feel like a community to me any more," says Gary Wolf, executive producer of the online magazine HotWired. "There was a time in the Net's early days when I knew pretty much everything that went on in areas like Usenet and The Well [some of the first Net communities, largely text-based]. But now, there's just too much going on, too many people using the Internet to form relationships very easily."

Romantic souls are not the only ones interested in trends in cyberspace. The Net's effect on the way people relate to each other has excited - and worried - the business world.

Cybermail creators hope that the ease of Net shopping will eventually counter the appeal of downtown stores. Hotel operators fret that video-conferencing will one day discourage the executive from travelling. Bar owners worry that the thrill of online friendships will someday keep people at home.

Yet all these hopes and fears may prove unfounded. Already, companies say they see signs of the demise of the virtual community. According to America Online, for instance, most people using e-mail on its service are communicating with people they already know. Relationships that exist only in cyberspace are considered rare.

"I think the Internet works basically like a telephone to a lot of people," says David Wilcox, head of the UK Communities Online project, which promotes debate on the Net's influence on society. "People use it to set up appointments, and send news and friendly greetings to friends and business associates."

New plans by companies like AT&T for live voice transmission across the Net may soon make the comparison with the telephone even more apt.

The prediction that cyber-surfing would tether people to their screens is also proving unfounded. The Net is increasing rather than reducing the desire for physical contact, according to Patrick McGovern, chairman of the International Data Group, a prominent technology research firm.

"A few years ago, we thought our conference business would die a slow death, as people held more meetings in cyberspace," says McGovern. "We found that the opposite was true. People who had met each other online wanted to meet face to face. They would ask each other if they would be attending the such-and-such conference, and they'd go out of their way to be there."

According to McGovern, IDG's conference business has halloed, from yearly growth of about 6 per cent in the early 1990s to 25 per cent annual expansion in the last two years.

Whether the death of the virtual community is a good thing or not is hotly debated. Net society has been portrayed as angel and as demon. Some observers, like Howard Rheingold, author of *The Virtual Community*, see cyberspace as a utopia.

According to Rheingold, people on the Net are not judged by their looks or accents, but by their wit and writing skills. Through focused discussion groups, they get to know others with the same interests. Even

people with physical handicaps, he says, can be social butterflies, flitting from one chat-room to another. "I get tired of people criticising virtual communities. Is it really that much better to meet someone at a singles bar?"

Others say an obsession with virtual friendships has affected their lives. "I used to spend a lot of time talking with people online, until I had to move apartments one weekend and I realised there was no one in town to help me," says Mae Kadi, a Californian computer consultant. "It may be interesting to discuss politics on the Net with someone in Missouri, but that person can't help you carry the sofa."

Rheingold admits to colouring his communications with sentences like "Howard smiles ironically" or "Howard takes offence and it looks like he's going to punch you in the nose." Rheingold sees these affectations as witty and humorous. To Kadi, they are ridiculous, and indicate that the realm of virtual communications lacks an ingredient essential to human communication.

Kadi also questions the value of forming relationships based on shared interests, the hallmark of virtual society. "What used to make a village interesting was that you'd know the plumber, the minister and the rich millionaire on the hill," she says. "Even if I go out with friends from work today, we have contact with people

with different lives, like the waiter or the taxi driver. On the Net, you make a beeline for people who are just like you."

Rheingold counters that the old village community is just a fading memory. "How much diversity do you get in a typical suburb?" he asks.

Many observers believe cyberspace's real value as a social tool is as a support for face-to-face relationships. Net backbone provider BBN sees a big market in providing hook-ups for intranets; networks that allow workers in a single company or physical community to communicate. "That area is booming right now," says John Curran, chief technology officer for the company.

If these trends are any indication, the Net may already serve mainly as a support medium for real-life communities.

"I think people are using e-mail more to set up meetings than to replace them," says Stanley Lepeak, an analyst at the research group Metagroup. "The virtual community people talked about in the early years of the Net is just an anomaly. Cyberspace will probably end up changing real-life interaction less than people had originally predicted."

Tim Jackson

# Snail mail swan song



A few weeks ago, I received one of those annoying calls that are increasingly familiar in the PR business. Claiming to be a market researcher, the caller wanted to ask me a string of questions about the Royal Mail, Britain's national post office, and the threats it faces.

If you are a postal specialist, you know that one of the big concerns of national post offices in the industrial world is "remailing" - the practice, increasingly common with big companies, of sending letters in bulk to a country where postal rates are low, and then posting them individually to their destination.

It works for domestic bulk mail as well as international: for instance, it is cheaper for a Japanese company to send 10,000 letters to Tokyo addresses by shipping them out to Hong Kong and back than to put them in a local postbox. Countries with high postal tariffs hate this.

My argument to the "researcher" was that although post offices get worked up about remailing, they are missing a much bigger issue: competition from electronic messaging. Post offices like to claim that they have a legal "monopoly" on letter delivery up to a certain price.

They don't. A high proportion of letters in the mail are one-page typed messages that could just as easily go by fax or e-mail. Competition from these services already explains why postal volumes are rising so slowly - by only a few percentage points a year, compared to double or even triple-digit growth for electronic messages. This year, for the first time, more messages were carried in America by e-mail than by US Mail. As Net access becomes ubiquitous, revenues from "snail mail" will decline.

That, at least, is the theory. When I tried to investigate the service for sending manuscripts, I discovered a few complications. First, there is a \$50 monthly charge before you start. Next, you pay \$5 per branch if you want the document printed in different places at once. Most inconveniently, the documents have to be in Adobe Acrobat format. That is an admirable technology for exchanging camera-ready artwork if your company is permanently wired into the Net, but not for swift document exchange: a manuscript like mine in Acrobat would take a week-long phone call to send.

Before systems like KinkoNet become user-friendly, they will need to accept standard word-processing formats like Word, which are much more economical with their data; and they will need to be a more plausible bet for the once-off casual user. An ideal solution would be to use a combination of e-mail and the World Wide Web to allow people on a one-off basis to send documents for remote printing, paying instantly by credit card.

There are problems to solve, the most important of which are the needs to guarantee that the document will come out right and that it will not get into the wrong hands en route. A Son of KinkoNet could ultimately be a big and very successful business.

Printing specialists retort that such services - electronic data exchange combined with remote printing - already exist on a much larger scale in the printing industry.

But just now it makes more sense to send information around the world when printing 100 copies of a four-colour magazine than a few thousand sheets of black and white. In future, even the microscopic remote jobs will be cost-effective, and price competition for photocopying and small-scale printing will be international instead of local.

That, at least, is the theory.

## Partners in Summers

[Faded text, likely bleed-through from another page]

## South

[Faded text, likely bleed-through from another page]

# Cookies leave a bitter taste

Invasive data collection is widespread, writes Lisa Bransten

Some time ago *The New Yorker* magazine carried a cartoon of a canine Web surfer telling a fellow hound: "On the Internet nobody knows you're a dog."

But the anonymity much valued by early Net users is fast disappearing, and the blame lies with "cookies". Cookies are software programs which companies use to gather information about visitors to their sites on the World Wide Web. A cookie can track the times you visit a site, record moves between pages, and store registration information which may allow e-mail later.

Cookies are galling to Web surfers as sites plant them on to the hard drives of PCs. Anyone who has cruised the Net has probably been forced a cookie or two. You can find them by searching your computer's hard drive for a file called "cookie". Opening it will reveal a list of all the Web sites that have handed out cookies.

Some of the most private information that cookies store is offered voluntarily on the registration forms needed to access Web sites. The information, which may

include a user's e-mail address, interests, birthday and/or marital status, is then loaded into a cookie and stored on your computer so that the company that planted it can access this information whenever you visit its Web site.

Such information is fast becoming a form of Net currency. Indeed, gathering and selling this information could soon rank alongside advertising as an important source of Net revenue, says Eric Johnson, a professor of marketing at America's Wharton School of Business. In Johnson's view, the most successful sites will probably offer specialised services to their users based on personal information.

Parent Soup, a Web site designed to give parents advice and allow them to communicate ([www.parentsoup.com](http://www.parentsoup.com)), uses personal information to track the interests of visitors.

At present, the information is used primarily to improve the site's content, but the Net content company iVillage is also keen to help advertisers reach their audiences more precisely, says Elaine Rubin, the com-

pany's senior vice-president of interactive commerce.

Rubin, of the new media committee of the US Direct Marketing Association, a trade body, recognises that such uses of online information make some people uncomfortable. But she believes that benefits such as customised notification of sales and consumer information will dispel fears.

However, the commercial use of personal information has prompted nervous postings on Web sites and electronic bulletin boards across cyberspace.

Netescape Communications and Microsoft - makers of the two most popular Net browsers - have adapted their latest software so that users can prevent cookies being planted on their PCs.

But blocking all cookies would mean that consumers would have to enter long registration forms every time they wanted to enter certain sites.

In an effort to stem the backlash against cookies, US organisations such as the Direct Marketing Association and the Electronic Frontier Foundation, a not-for-

profit civil rights organisation, are raising public awareness.

The Direct Marketing Association is prodding its members to disclose exactly what type of information they collect and how it is used. It has posted its own privacy policy on its Web site as an example ([www.thedma.org/privacy/](http://www.thedma.org/privacy/)).

The Electronic Frontier Foundation hopes to take disclosure a step further. Earlier this year, with several companies engaged in electronic commerce, it formed an organisation that will license special logos to Net businesses provided they agree to submit to audits of their information practices. The group, eTrust, hopes to have the project up and running early next year.

Three symbols are planned: for sites that do not collect information about visitors; for sites that collect information for their own use; and for sites that may sell information to third parties such as direct marketing companies. The logos will start at about \$2,500 (£1,500) a year. Proceeds will pay for audits and consumer education projects.

closed on October 11.

● For anyone interested in investing in or doing business with Malaysia, The Edge ([www.bvedge.com.my](http://www.bvedge.com.my)) has listings of corporates and markets news.

● Anglogold, the gold division of the Anglo American Corporation of South Africa, has put up a site ([www.aac.co.za](http://www.aac.co.za)) which has Anglo's goldmining quarterly results to September and is interesting for its stern warning against accessing from the US. [steve.mcgoekin@ft.com](mailto:steve.mcgoekin@ft.com)

**FTid - The Internet Directory**

The following companies want you to know that you can find out more about them by simply looking them up on the World Wide Web.

All of these can be accessed via hyperlink directly from the Financial Times at <http://www.ft.com>

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<p><b>Cyber sightings</b></p> <p>by Brian H. Johnson</p> <ul style="list-style-type: none"> <li>● One of the most talked about sites recently has been Firefly (<a href="http://www.firefly.com">www.firefly.com</a>) which uses intelligent agents to recommend movies or music based on your submitted preferences. Now there's Yearling (<a href="http://www.yearling.com">www.yearling.com</a>, unsurprisingly) which dishes up a personalised television listing as a result of subject choices. If you could just get it to set the video, too...</li> <li>● Moneysearch (<a href="http://www.moneysearch.com">www.moneysearch.com</a>) is an excellent resource with good links covering a range of financial sectors, along with a market snapshot. I like the time counter: "You have 1 hour and 28 minutes left to trade today." Well worth bookmarking.</li> <li>● You can order reports on US initial public offerings through analyst Manish Shah's IPO Maven site (<a href="http://www.investools.com/cgi-bin/Library/ipo_maven.pl">www.investools.com/cgi-bin/Library/ipo_maven.pl</a>), which also offers an IPO calendar and breaking news features. Straightforward layout, registration required.</li> <li>● Yellow Window (<a href="http://www.yellowwindow.be">www.yellowwindow.be</a>) is a management consultancy based in Brussels and Antwerp, specialising in international business development. At its site you can request a free management brief, while a two-monthly newsletter Growth International News will be added to the site from the end of this month. The company also plans to make a business opportunities database available next month.</li> <li>● Another consultancy with an interesting, nicely designed site is Fairplace Consulting (<a href="http://www.fairplace.com">www.fairplace.com</a>). This City of London firm specialises in training and career counselling for UK banks and financial institutions.</li> <li>● UK bookeller Waterstones has set up a very pretty site indeed (<a href="http://www.waterstones.co.uk">www.waterstones.co.uk</a>) with plenty of interesting content and some nice graphics. Word to the wise, though: don't enter the Book of the Century contest. I'd already sent my entry before I got to the small print that said it</li> </ul>	<p><b>Demon Internet</b></p> <p>of net growth</p> <p>the largest European Internet Service Provider</p> <p>0181 371 1250 E-mail <a href="mailto:sales@demo.net">sales@demo.net</a> <a href="http://www.demo.net/">http://www.demo.net/</a></p>	

BUSINESS TRAVEL

Travel News • Roger Bray

Lean machines

Europe's first train links continue to expand. In a new joint venture between French and Italian railways, a direct TGV service now operates between Paris and Turin and Milan, and it is no longer necessary to change at Lyons or Lausanne. Italian tilting trains have begun operating between Lyons and the two cities, cutting the journey times by up to an hour.

Sydney boost

The stimulus of hosting the next Olympics has boosted major expansion at

Sydney's Convention and Exhibition Centre. A development plan includes the addition of a new, 1,000-seat auditorium and adjacent rooms, 3,000 sq m of extra exhibition space, banqueting facilities for 1,000 guests, and a monorail connection to the city's central business district.

Medium-sized conferences for between 800 and 1,000 delegates have been falling through a gap between hotels, which can handle up to about 500, and the existing centre, which usually caters for conventions of between

1,600 and 3,500 people.

Tough limits

Business travellers flying with Canadian airlines face strict new curbs on the amount of hand baggage they may take aboard.

Previously the industry simply followed guidelines. Now Canada has carved limits in legal stone. They are: two pieces of luggage, with maximum combined measurements of 91in x 16in x 22½in (23cm x 41cm x 57cm), plus a garment bag which, when folded double, is no more than 92in x 22in x 22½in; and one of the following: a laptop, a briefcase or a woman's

handbag.

Carriers such as Air Canada are settling disputes over dimensions by passing bags through scanners. And don't imagine you'll get away with it by concealing your luggage and taking it through the departure gate. They've got scanners there.

Tea service

Privately owned Indian airline Jet Airways has started services between its Calcutta base and Jorhat, on the Brahmaputra River in the north-eastern tea-producing state of Assam.

The city is a road and rail hub. Jet is at the centre of a

leading agricultural area and is noted for the manufacture of jewellery. Flights are on Wednesdays and Fridays by Boeing 747-200.

Costly mistake

Beware bogus taxis, charging exorbitant fares from Paris airports, warns a new booklet for business travellers published jointly by American Express and Air France.

Information is largely stripped down to bare essentials. It tells you, for example, where to find a hospital casualty service with English-speaking staff. The booklet, about as thickly

as the average air ticket wallet, is available free to travellers-booking with Air France's temporary card, or through its business travel agencies.

In the swing

First-class and business-class passengers flying with Delta's new A330-300 are to share Virgin Atlantic's highly individual Clubhouse lounge at London Heathrow's Terminal Three. Four-hole indoor putting green, hydrotherapy bath, computer games and all. The arrangement starts in November.

Likely weather in the leading business centres

City	Mon	Tue	Wed	Thu	Fri
London	12-18	13-19	14-20	15-21	16-22
Paris	11-17	12-18	13-19	14-20	15-21
Frankfurt	10-16	11-17	12-18	13-19	14-20
Amman	18-24	19-25	20-26	21-27	22-28
Beirut	17-23	18-24	19-25	20-26	21-27
Damascus	16-22	17-23	18-24	19-25	20-26

BEIRUT DAMASCUS Amman 0345 320100

Chips are just the ticket

Airline tickets are going to smarten up their act. The familiar booklet with faint writing on crackly carbon paper is unlikely to be much in evidence in 10 years.

Instead it will be bred to become intelligent - clever enough to know who you are, where you are going and where you should be sitting.

Last week the International Air Transport Association set out common standards for the way electronic ticketing and smart cards can operate internationally between airlines.

Once the global standards are in place next June, electronic ticketing has the potential to accelerate. Mike Müller, senior manager of passenger services at the association, says that, by 2005, "the vast majority of tickets are likely to be intelligent and the old paper tickets will gradually fade away".

Airlines are experimenting with different types of ticketing. Electronic ticketing - so-called ticketless travel - involves booking with a credit card. No bits of paper need to be exchanged - you just turn up at the airport and show your credit card.

But that leaves the problem of coming up with a quick automated identification. Some airlines, such as US carrier Delta and Lufthansa, the German flag carrier, are experimenting with integrated circuit cards, or "smartcards" on domestic routes. An alternative is the automated ticket and boarding pass, already in limited use. It is less intelligent than a smartcard since it

The old paper airline ticket will soon be a thing of the past, says Scheherazade Daneshkhu



To travel hopefully: electronic ticketing should cut long queues

only has a magnetic stripe in which to store information rather than a chip. Swiped through a machine, the boarding card reconciles passengers with their baggage.

But it has the potential to develop into a new-style alternative to the paper ticket, which could be attractive to travellers who prefer a piece of paper in their hand.

Electronic ticketing is attractive to airlines because of its potential to reduce costs. Müller says that a conventional paper ticket typically costs \$8 (\$5) to process compared to between \$1 and \$2 for one issued electronically.

It can also cut down on distribution costs. Up to 85 per cent of tickets are issued by a travel agent in some markets, even though only 70 per cent are ordered through one, says Iata.

This is because a traveller may book directly with an airline but request that the ticket be sent to a travel agent. The agent then gets commission from the airline for writing out the ticket.

The advantage for travellers is the promise of quicker and more convenient travel, particularly where last-minute changes to plans are concerned. These can be made on the phone, cutting out the need to have the ticket physically altered which can

involve standing in a long queue at the airline's desk.

United Airlines, which introduced electronic ticketing on its domestic routes in the US last year, says that just under 40 per cent of its domestic tickets are now issued electronically. "We expected it to be popular and have found that some of the concerns travellers initially expressed about what if I turn up without a ticket in my hand and the computer knows nothing about me?" have disappeared against the benefits of not having to carry a ticket," it says.

United plans to expand the service internationally next spring. Some airlines already operate electronic ticketing on international routes. EasyJet, the UK-based low-cost carrier, which only accepts direct bookings, was established last year on the ticketless concept.

But operating the system between airlines is trickier, since it involves setting up compatible systems. Airlines are likely to take advantage of the new standards initially only with their alliance partners.

One problem for airlines is how to communicate the limits to their liability to passengers. This takes up much of the small print in existing tickets. Iata suggests that airlines issue an itinerary receipt once a booking is made, drawing the traveller's attention to the limits which are set out under the Warsaw Convention. Additionally, by printing the amount paid on the receipt, travellers have the comfort of being able to prove their purchase if necessary.

London Underground's "rootweiler" ticket gates are perhaps an unlikely source of wisdom. But for Jeff Mortner, worldwide business manager for the FastGate system, they were inspirational.

Mortner has overseen IBM's development of an immigration clearance system where passengers swipe a card through a machine and then place their hands on an electronic reader - a process which can be completed within 15 seconds.

Travellers proceed if their hand geometry corresponds with the image taken at enrolment. Immigration officials stand by to intercept anybody who merits further questioning.

Mortner recalls: "I was at Piccadilly and was impressed by how passengers moved quickly through the gates. So I spent a while talking to the attendant about how people try to get through without paying."

IBM says it has a "significant commitment" to making its system standard worldwide, with plans for considerable development over the coming five years. Next April, FastGate will be pioneered at Bermuda airport, which handles about 600,000 passengers a year. And the company is talking to other airports around the world, including London's Heathrow and Frankfurt.

Jack Gordon, general manager of Bermuda airport, is delighted. "We want a convenient service for our customers but have to maintain stringent controls," he says. "This new system will cut our passenger processing times in half."

Big Blue on board

Liam Halligan and George Parker on new technology to speed up the immigration process

The significance of the IBM system is that the passport information could be carried on credit cards, opening it to a huge potential worldwide market.

Geoffrey Lipman, president of the World Travel and Tourism Council, says the IBM development is "particularly important" but adds that its success on a global scale depends on international agreement and common standards.

The council is already working with leading airport operators, airlines and companies to try to get agreement on a common approach to rapid immigration systems. "We believe the number of air travellers will double in the near future, and that will put huge pressure on airport space and border and immigration authorities," says Lipman.

A rival electronic immigration system, also using a swipe card and handscan, is already up and running in New York City. Developed in-house by the United States' Immigration and

Naturalisation Service, the INSpass system now operates as a pilot scheme at John F. Kennedy and Newark airports.

More than 60,000 passengers are enrolled in the INSpass programme, having received their cards after interviews with immigration authorities. So far, only "low-risk" passengers have been admitted, including citizens of the US, Canada and Bermuda, as well as some other foreign nationals with diplomatic or frequent-visitor status.

Airport officials at JFK say inspection times as low as 11 seconds have been recorded. When asked about IBM's technology, Brian Jordan of INSpass says: "We are thoroughly satisfied with our system at the present time. It was developed here, and it is maintained on-site."

Yet IBM is convinced that its FastGate system is better suited to a global application than INSpass. Mortner believes the system could be in wide use within five years. Whether both systems spread, or neither, electronic immigration procedures, coupled with electronic ticketing, are set to revolutionise air travel.

But given the diplomatic co-ordination required to facilitate enrolment between countries, setting up a fully integrated electronic immigration service around the world may take some time.

And time is of the essence for Mortner. FastGate's Bermuda tests will start just before the peak of the island's tourist season: "It'll be the fastest way to the honeymoon suite or the beach," he says.



**CATHAY PACIFIC**

CHOICE



The Heart of Asia



# Why Russia faces cultural meltdown

The arts are under siege as once-great institutions are threatened with total shutdown because of lack of funding. John O'Mahony reports from St Petersburg

For the chilling announcement that their city and their country were facing imminent cultural meltdown, St Petersburg's artistic elite could hardly have found a better setting. The toppled Doric columns, crumbling friezes and mouldering cornices that make up the scenery of the Bolshoi Drama Theatre's new production of *Antigone* could have been read as a tacit metaphor for the current decimated post-Soviet state of the arts in Russia.

And when the directors of more than a dozen of St Petersburg's elite cultural institutions - among them such world-renowned landmarks as the Mariinsky Theatre, the Philharmonia, the Hermitage and the Russian Museum - shuffled on stage to deliver their proclamation, the group was curiously reminiscent of the Greek chorus in a Sophoclean tragedy. In these circumstances, the message they had come to deliver was fittingly brutal and vatic: "The doors of world-famous museums will close, in the Russian National Library, the distribution of the books will be stopped. The classes in the St Petersburg academy of the Russian academy of Ballet and theatre will cease," declared Bolshoi director Kirill Lavrov, reading from an open letter addressed to prime minister Victor Chernomyrdin, stating that unless immediate cash were forthcoming from the federal authorities, the black-out could begin next month.

"Even the most fanatical rulers in turbulent periods of revolution and war understood the value of culture. But today they can't," he continued. "We are talking not about international showcases or a reserve of valuable heritage but about one of the world centres of culture, enlightenment, education and science. Lose it once, and it won't be possible to restore it again."

This current crisis was sparked by the announcement last month that federal funds for cultural bodies - including libraries, academies and universities - were to be squeezed once more, this time to the point of strangulation. Funding will henceforth only cover 35 per cent of employee wages, with absolutely no provisions for maintenance or any other expenses. Russia is now spending just a quarter of one

per cent of its budget on the arts, many times lower than any western country. The years since the post-perestroika slump, when the lavish Soviet allocation for the arts between 3 and 4 per cent of the national budget began to evaporate, have had a catastrophic effect upon Russian cultural life. The film industry - Lenin's favourite of all of the propagandist arts - has been completely decimated. Lenfilm, the state studio in St Petersburg which once pumped out 70 films a year, has reduced its output to a single feature and was forced to re-

and to date, unfunded - \$300m development project. But it is the very success of these galleries, Hermitage director Mikhail Piotrovsky suspects, that may have led to their downfall: "Officials see that somehow we are still running. So they must be in good shape and maybe it won't make any difference if we cut a little bit more and a little bit more."

But the latest round of cuts - prompted by the war in Chechnya, the budget-sapping election campaign, the struggle with inflation - have, even by Russian standards, simply gone too far. In their wake, the position of the majority of federally assisted museums, theatres and educational centres, including Moscow's Tretyakov gallery and the capital's Bolshoi Opera along with scores of lesser institutions across this huge country, has become completely untenable.

In his vast tapestry-hedged office, behind a monstrous oak desk in the Old Hermitage building, Mikhail Piotrovsky is relatively sanguine about his own cultural doomsday scenario: "I'll do everything out to close the museum," he says calmly, "but if we do not get the money for wages and heating, we first of all will close parts of the museum. The next stage will be to restrict the hours of opening so we use only daylight, as in the 19th century. The next is when everything is cut - the heating, the electricity - and we will come to the siege-like situation of the war." At this point, he flashes a characteristic, mischievous grin. "And if everything else fails we must move to the final stage, where the Hermitage can be seen only on the World Wide Web."

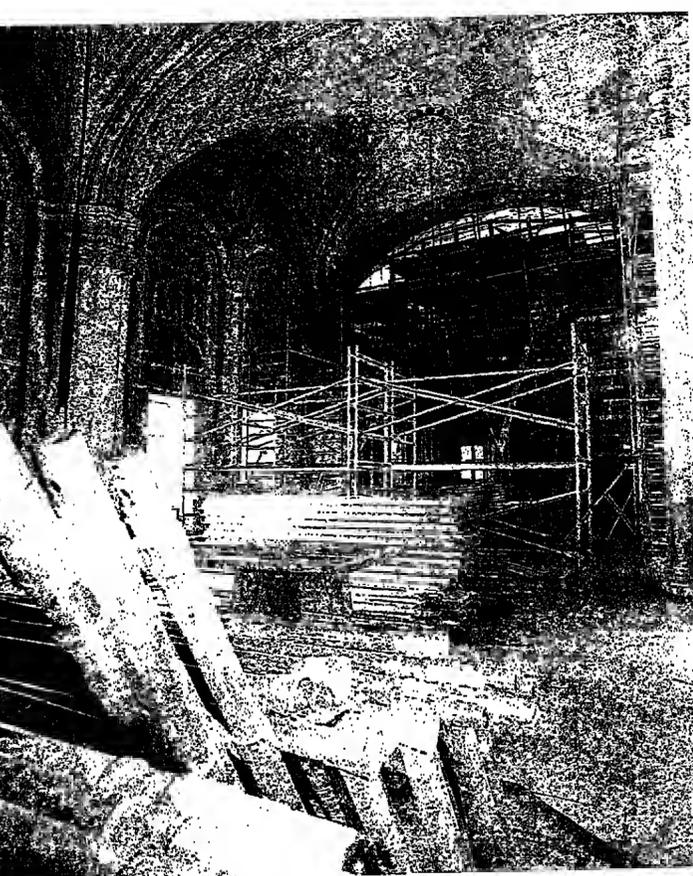
The directors of the city's museums feel that they are not only fighting against the government for lofty artistic ideals, but also for the very material existence of their institutions. "It is easy to see the result of this sudden interruption of financing," says Russian Museum director Vladimir Gusev, gesturing to the scaffolding encasing his building. "You just have to look outside the window. We took off all of the plaster from the facade as part of restoration. In the winter, the brickwork of the 18th century will be entirely exposed. Due to the moisture from rain, the building will be destroyed." As in two of the museum's other palaces, where the heating system is

**NEW YORK**  
The first production of the season at the Metropolitan Opera is *Carmina Burana*, arranged by Claudio Abbado and conducted by James Levine. The first night is on Thursday. A major retrospective first seen in Paris this spring, comes to the Metropolitan Museum of Art tomorrow. It examines his entire career, with 150 paintings from the 1820s to the mid-1970s.

**LONDON**  
Samuel Beckett's great but bleak play, *Happy Days* - currently also being performed in Paris in Peter Brook's new staging - comes this week to the Almeida Theatre on Wednesday, directed by Karel Reisz, with Rosalind Linehan (right) and Barry McGovern. Alun Armstrong stars in the National Theatre's new production of Arthur Miller's *Death of a Salesman*. The production, opening at the Lyttelton Theatre on Thursday, is staged by David Thacker (left), Britain's most prominent director of Miller's plays. Maggie Smith and Margaret Tyacke bring two of Alan Bennett's *Talking Heads* monologues (originally written for TV) to the London stage, opening tonight at the Comedy Theatre after their success this summer at Chichester.

**MUNICH**  
A new production of *Artaxerxes* on *Naxos*, conducted by Colin Davis and staged by Tim Albery, opens at the Bavarian State Opera tonight. This is the company's first new Strauss production since Peter Jonas became intendant four seasons ago. The star attraction was to have been Julia Varady's debut in the title role - but illness has forced her to withdraw, and her place is taken by Luana DeVol.

**EDINBURGH**  
A retrospective of Anne Redpath (below), one of the best-loved Scottish artists of this century, opens at the Scottish National Gallery of Modern Art on Saturday. Another exhibition, opening at the National Gallery of Scotland on Thursday, features German Renaissance prints from the British Museum, coupled with Durer's renowned painting of St Jerome.



Restoration of the Russian Museum in the centre of St Petersburg: lack of funding may result in the whole building crumbling away

**COPENHAGEN**  
The Royal Danish Ballet stage a new *Swan Lake* in Copenhagen's Royal Theatre. The producer is Peter Martin, director of New York City Ballet.

## Theatre Survival of the fittest

Survival of the fittest: two new plays from Derby challenge that maxim of modern life. Paines Plough launched its 50th tour in Derby Playhouse's studio theatre with *PoW!*, in which a fighting-fit boxer is KO'd by an under-world betting scam, while the main house hosted the world premiere of John Godber's *Gym and Tonic*, which is set in a health farm which pummels flabby attitudes as much as middle-age spread.

Shirley and Don Weston find themselves out of their social depth at the health hydro. A self-made millionaire, Ken is as aggressive on the squash court as he is in business: "It's a jungle out there! You have to be Tarzan to survive." They are overwhelmed by Gertrude, a wealthy, snobby septagenarian. Putting ill-equipped characters out-of-place is familiar Godber territory. We laugh at Don's blunders when he strips down to his underpants for an aromatic massage, and when he has a panic attack during aerobics we recognise that it is symptomatic of his larger mid-life crisis. His problems are exacerbated by the very activities he believes are relieving his stress. Moreover, Don and Shirley have not made love for two years.

Don's vision of his former student self passionately abdicating belief in the future, is tempered by his view that "The Thatcher Years" have destroyed the fight in most of us. When the 1970s are nostalgically evoked, you realise that Godber, who also directs, is theatre's answer to easy-listening music.

Director Penny Chiewitz uses the menace of jungle music to make an impact with *PoW!*. First-time playwright Alden Healy has more fight in him than Godber. A boxer foolishly believes he can fix matches, taking a dive in set-up rounds. He fails to do so, but nor does he go on to win. Back in the dressing-room, his whisky-soaked trainer, his manager and lover and his girlfriend, all stake their claim on him; but he will not go the distance with any of them and throws in the towel: "I've got my own fight to fight."

Despite the clichés, Healy has a passion and might yet learn to make it crackle. John Godber once learnt it, but seems to have lost it.

Simon Reade

*Gym and Tonic* plays the Thorndike Theatre, Leatherhead until November 16 (01372-377677). *PoW!* tours England until December 14 (0171-2404333 for details).

## INTERNATIONAL ARTS GUIDE

- AMSTERDAM**  
EXHIBITION  
Joods Historisch Museum Tel: 31-20-6289945  
● Jules Chapon, 50 jaar kunstenaar. Een wereld van bewegende lijnen: retrospectieve tentoonstelling die een overzicht van de werken van Jules Chapon from the 1940s to the present; to Dec 8
- BARCELONA**  
EXHIBITION  
Fundació la Caixa Tel: 34-3-4588907  
● Tibetan Sacred Art: this exhibition of about 200 pieces of sculpture and "thangka" (roll-up-paintings on fabric used as aid to meditation) presents a journey through 12 areas which symbolises the different religious spheres with the most representative characters and deities in Tibetan Buddhism. The works are from public and private collections in Europe and the US and span the period from the

- ninth to the 19th centuries. Following this exhibition the show travels to Japan; to Jan 12
- BERLIN**  
CONCERT  
Philharmonie & Kammermusikkessel Tel: 49-30-2614383  
● Berliner Philharmonischer Orchester; with conductor Kurt Masur and pianist Esabek Leonskaja perform Beethoven's Piano Concerto No. 1 in G major and Symphony No. 9 in B minor; 8pm; Nov 1
- JAZZ & BLUES**  
Berliner Festspiele/GMBH Tel: 49-30-254890  
● Maria Schneider Jazz Orchestra: performance at the Haus der Kulturen der Welt, as part of the Jazz Fe; Berlin; 7.30pm; Oct 31
- BILBAO**  
EXHIBITION  
Museo de Bellas Artes Tel: 34-4-4419536  
● Julio González exhibition focusing on the work of the Spanish artist Julio González (1876-1942) as a craftsman. Included in the exhibition are 104 drawings by González from the collection of the Museo Nacional Centro de Arte Reina Sofia; to Dec 1
- BRUSSELS**  
EXHIBITION  
Musée Commun d'Ixelles Tel: 32-2-5119084

- De vertellingen in prent van Rodolphe Töpffer: de gebeurtenissen van het stripverhaal: exhibition devoted to the work of the illustrator and author Rodolphe Töpffer whose seven "Histoires en bandes dessinées", the first of which was drawn in 1827, are generally considered to be the forerunners of the (comic) strip; to Nov 3
- CAPE TOWN**  
CONCERT  
City Hall Tel: 27-21-4617084  
● Cape Town Symphony Orchestra: with conductor Paul Capolongo, violinist Srdjan Guca, cellist Leslie Meeks, oboist Sharon Figner-Lindquist and bassoonist Ingo Holland perform works by Haydn, Fauré and Brahms; 8pm; Oct 31
- CHICAGO**  
EXHIBITION  
Art Institute of Chicago Tel: 1-312-4433600  
● Edgar Degas: Passing on the Tradition: this exhibition accompanying the exhibition "Degas: Beyond Impressionism" features about 130 works on paper from the museum's collection. The exhibition aims to elucidate both Degas' sources and his influence on subsequent generations of artists. The exhibition reviews the work of the many artists he admired, copied and collected, including Rembrandt, Ingres, Delacroix, Daubigny, Van Gogh and Gauguin. In addition, works are presented by those immediate successors.

- like Toulouse-Lautrec, Rouault and Picasso, who acknowledged, in word or deed, their debt to him; to Jan 26
- DUBLIN**  
CONCERT  
National Concert Hall - Ceolras Náisiúnta Tel: 353-1-6711888  
● RTE Concert Orchestra: with conductor Mark Shanshan, soprano Barbara Kliff, counter tenor Nicholas Clifton, baritone Karl Daymond, the Tallaght Choral Society, the Dublin County Choir, the Tallaght Boys' Choir and the National Chamber Choir perform works by Orff, Verdi, Humperdinck and Mussorgsky; 1.05pm; Nov 1
- LONDON**  
CONCERT  
Barbican Hall Tel: 44-171-6384141  
● London Symphony Orchestra: with conductor Riccardo Chailly, soprano Katarina Dalayman, tenor Wolfgang Schmidt and bass Gudjon Oskarsson perform works by Schoenberg and Wagner; 7.30pm; Oct 31  
Royal Festival Hall Tel: 44-171-9604242  
● Philharmonia Orchestra: with conductor Leonard Slatkin and pianist Stephen Kovacevich perform works by Beethoven, Mozart and Elgar; 7.30pm; Oct 31
- MADRID**  
EXHIBITION

- Biblioteca Nacional Tel: 34-1-5807800  
● Ydioma Universal: exhibition focusing on Francisco de Goya's graphic work. The display features not only works by the Spanish artist himself, but also works by contemporaries, including Ceán Bermúdez, Dürer, Carraci, Piranesi, Rembrandt, Rubens, Van Dyck and Tiepolo. The exhibition features more than 300 works, including prints, sketches, drawings, books and manuscripts; to Dec 19
- NEW YORK**  
CONCERT  
Alice Tully Hall Tel: 1-212-875-5050  
● Finnish Chamber Orchestra: with conductor Jukka-Pekka Saraste and pianist Olli Mustonen perform works by Sibelius, Beethoven and Mozart; 8pm; Oct 30
- PARIS**  
EXHIBITION  
Musée Auguste Rodin Tel: 33-1-47 05 01 34  
● Rodin - Les Marbres de la Collection Thyssen: this exhibition features six marble sculptures by Auguste Rodin, commissioned by August Thyssen (1842-1926) in 1905 and 1908; to Jan 5  
Musée Carnavalet Tel: 33-1 42 72 21 13  
● Frank Horvat: Paris-London: this exhibition features 110 black-and-white photographs taken by Frank Horvat during the 1950s and 1960s; from Oct 30 to

- Feb 23
- SAN FRANCISCO**  
CONCERT  
Louise M. Davies Symphony Hall Tel: 1-415-864-6000  
● San Francisco Symphony: with conductor Michael Tilson Thomas and pianists Katia and Marielle Labèque perform works by Berlioz, Copland and Debussy; 2pm; Oct 31
- VIENNA**  
OPERA  
Wiener Staatsoper Tel: 43-1-51442960  
● Stiffelio; by Verdi. Conducted by Fabio Luisi, performed by the Wiener Staatsoper. Soloists include José Carreras, Mara Zampieri and Marjorie Vance; 7.30pm; Oct 30
- WARSAW**  
OPERA  
Teatr Narodowy-National Theatre Tel: 48-22-263289  
● The Haunted Manor; by Moniuszko. Conducted by Tadeusz Wojciechowski, performed by the Polish National Opera. Soloists include Zbigniew Macias, Dorota Radomska and Katarzyna Suska; 7pm; Oct 29

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08.30  
Squawk Box
- 10.00  
European Money Wheel
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COMMENT & ANALYSIS



Michael Prowse • America

# Politics of gender

The big challenge facing conservative Republicans is to win back the support of women voters

If President Bill Clinton wins a second term, he will owe a debt to women. Among male voters, the presidential race is close in many states. Mr Clinton typically leading by only a few percentage points. But among women, there seems to be no contest: Mr Bob Dole, the Republican challenger, is trailing by 20 points or more.

Why does Mr Clinton appeal so much more to women than men? The personalities of the two candidates play a role. Mr Clinton is more telegenic and emotional. He has cleverly exploited his almost feminine capacity to empathise with voters. And, contrary to what one might expect, opinion surveys show women are more willing than men to trust him: they seem less worried by his alleged character failings.

Mr Dole, by contrast, epitomises an uptight, old-fashioned type of masculinity. His toughness seems to repel female voters. Being as old as many of their grandparents, he perhaps reminds them of a bygone era when women were confined to the home and discriminated against in the workplace. And he undoubtedly suffers because of his association with Mr Newt Gingrich - the fiery Speaker of the House. Mr Gingrich's negative ratings among women have set new records for pollsters.

But the Republicans' inability to connect with female voters has deeper roots. The 1976 contest between Jimmy Carter and Gerald Ford was the last in which men and women voted evenly for a president. In 1980 Ronald Reagan, the victorious Republican challenger, attracted 55 per cent of the male vote compared with 36 per cent for Jimmy Carter; but women split almost equally, with 45 per cent favouring Carter and 47 per cent Reagan.

seems permanent. In 1988, men favoured George Bush over Michael Dukakis, the unsuccessful Democratic candidate, by a margin of 19 points; the female vote was again almost evenly split. And in 1992, Mr Clinton's margin of victory among women was three times as great as that among men.

The simplest explanation of this gap is that women are more likely to oppose the social and economic policies associated with the Republican party since its conservative tilt in the late 1970s (the ideological differences between Carter and Ford were minimal). Opinion polls consistently show that women are less keen on tax cuts than men and more opposed to reductions in government spending.

They put a greater priority than men on education, healthcare and the environment. They support "affirmative action" programmes to help racial and ethnic minorities, whereas men, by a small margin, would abolish them. Surprisingly, perhaps, abortion is not an important issue in explaining the Democrats' comparative advantage among female voters: the percentage of men and women on

each side of this debate is roughly equal.

But why are women more inclined than men to support "welfare state" policies? Part of the answer is that women's roles give them a more direct interest in issues championed by Democrats. Women more often assume the burden of caring for the old and young, and thus are more likely than men to feel threatened by alleged "cuts" in healthcare or education.

They are also more likely to be the direct beneficiaries of public spending. Most welfare recipients in the US are single mothers. Because they live longer than men, they also tend to have a bigger stake in government programmes for the elderly, such as Medicare, the health scheme, and Social Security, the pension plan.

Probing deeper, women are probably more inclined to support the party with a "caring" image because they feel more vulnerable than men. The liberation movement has greatly extended their responsibilities: they are now expected to hold down full-time jobs while bearing the main burden of raising children and managing a home.

Mr Clinton seems more sympathetic than Mr Dole to the dilemmas posed by this dual responsibility; for example, he pushed through legislation to protect the jobs of parents obliged to take leave because of family crises.

In the longer term, the crucial question for Republicans is whether the gender gap can be bridged without adopting "social democratic" policies. Does the growing political influence of women - and their increasing willingness to vote differently to their spouses - spell doom for purveyors of libertarian and conservative doctrines? Is minimal government and the free market a lost cause among women? Are they instinctively less individualistic than men?

The answer, I hope, is no. The powerful economic - and ethical - arguments for libertarian policies should appeal just as much to women as men. But the language in which these ideas are discussed perhaps has to become softer and more persuasive. It would help, for example, if the free market was depicted fairly, as the pre-eminent form of social co-operation, rather than caricatured as a Darwinian struggle for survival. There is nothing inherently more co-operative than the market - a mutually beneficial network of voluntary transactions among people.

The Democratic myth that you lack compassion if you oppose increases in government spending should also be gently countered. Men or women can claim to be caring if they voluntarily give their own money to help the disadvantaged. The same moral merit cannot be claimed by those who merely demand that others be taxed to pay for the projects they desire. If American conservatives argued their case more adroitly, they just might win back more women voters.

### The gender gap in US politics

	Republican	Independent	Democrat
Male	36%	31%	33%
Female	28%	25%	43%

	Favourable	Not favourable	Favourable	Not favourable
Male	44%	38%	37%	29%
Female	48%	29%	23%	42%

Year	Reagan	Mondale
1984	52%	44%
1988	57%	41%
1992	50%	49%

Year	Clinton	Bush	Perot
1992	41%	38%	21%
1996	43%	37%	17%

Sources: New York Times/CBS News

## LETTERS TO THE EDITOR

Number One Southway Bridge, London SE16 2LH

We are keen to encourage letters from readers around the world. Letters should be sent to "Letters to the Editor", c/o Financial Times, 100 Brook Street, London W1A 2JA. Translations may be available for some letters in the main text.

# Population control as important as food production

From Mr Carl Walzer.

Sir, Alison Maitland's useful review of the current population/food debate ("The wheat from the chaff", October 17) focuses attention exclusively on the supply side. The underlying assumption seems to be that nothing can be done about the staggering future increases in world food demand, which are linked to continued rapid population growth as well as changing consumption patterns in developing countries. Luckily, this is not correct. It is obvious that meeting the demands of the billion or more people who suffer from hunger and malnutrition will require significant

improvements in all aspects of food production. But when it comes to the actual numbers of people to be fed in the next century, much can - and should - be done.

Family planning information and services are estimated as having prevented some 500m to 800m unwanted births in the developing world already. Contraceptive practice has increased fivefold in only three decades. Still, the United Nations and recent world conferences have repeatedly reminded us that some 350m couples worldwide, many of whom would like to prevent another pregnancy, lack the means. During the 1990s the

number of couples of reproductive age will grow by about 18m per annum. Investing in education, especially for girls, and reproductive health services, including family planning, are highly cost-effective, but not high cost. As a bonus, these investments will also modify the rapidly increasing need for food and water over time.

The time penalty for overlooking the demand side in the population/food equation is simply awesome. Why gamble?

Carl Walzer, 5, Square de l'Avenue du Bois, 75116 Paris, France

# Impression of auditors amazing

From Mr Donald A. Mah.

Sir, In your article "Company report changes urged" (October 24) you quote a leading partner of one of the very large accounting firms as saying: "We are all shuddering citizens which we judge as of too high a risk to the firm." Apparently this comment was a response to a concern that auditing failures of the past could re-emerge.

As a former member of the Accounting Standards Board and as a small investor, I am amazed and concerned that a leading professional accountant should convey the impression of walking away from difficulties rather than facing up to them. Is that ethical?

For the sake of the profession, I hope that the impression conveyed in your article is incorrect.

Donald Mah, Mahogany Hall, The Common, Chipperfield, Herts WD4 9BX, UK

# Linguistic exactitude

From Mr Terence Feely.

Sir, I much enjoyed James Morgan's box when he pretended to prefer "the structure was subject to intense incendiary activity but firefighters gained an entry and safely evacuated the residents" to "the place was ablaze but the firemen went in and got everyone out" as an example of good English ("The curious role of the English language", October 19/20).

Just a word of warning, though: many more young people read the FT than he might think. He's gained credibility with them by his lively coverage of European attitudes. It would be regrettable if he corroded their appreciation of simple English. If it wasn't a joke and he was serious then there's obviously a serious downside to being a polygot.

Terence Feely, The Garrick Club, Garrick Street, London WC2E 9AY, UK

# Economics devoid of democracy

From Mr Llew Smith MP.

Sir, In all the responses you published (October 17) to your editorial "New money for Europe" (October 14) no one seriously addressed the point made on "the relationship between the banks and politicians". The Maastricht treaty states: "The Community institutions... and member states undertake... not to seek to influence the members of the

decision-making bodies of the European Central Bank... in the performance of its task."

This means that virtually all the main economic decisions will be taken by unelected and unaccountable bankers and not democratically elected politicians. Indeed, the ultimate insult to our democracy is that those democratically elected politicians will be acting illegally even if they try

influence those unelected bankers on issues such as poverty, unemployment and homelessness.

Anyone who values the vote and our democratic system of government cannot allow this to happen. It helps explain one of the principal reasons why we must oppose a single currency.

Llew Smith, House of Commons, London SW1A 0AA, UK

# Cotton industry at risk from dumping

From Mr J.A. Oliveira.

Sir, I refer to Jimmy Luesby's article "EU rethink on cotton import duties" (October 10), regarding the anti-dumping proceedings on imports of unbleached cotton fabrics originating in Egypt, China, India, Indonesia, Pakistan and Turkey.

Eurocotton's complaint is supported by producers of more than 70 per cent of the European production of cotton fabrics and not only by France and Italy. The European production of unbleached cotton fabrics is well above that mentioned in the article which corresponds to production sold on the free market.

The European Commission has not opened a second investigation. The initial investigation is being carried

on and will be pursued even after the adoption of provisional duties.

The EU member states' positions, as described, are fanciful. We cannot see any government saying in advance that it will oppose the duties irrespective of the final outcome of the investigation. The final decision is to be made by the EU Council of Ministers.

Should anti-dumping duties not be imposed, then the injury suffered by the cotton textile industry would get increasingly worse. Not only would the weaver, which sell the product in grey state, be hit but also would those which seld and printed fabrics, since they have to face the competition of finished fabrics obtained from west imported greys. About

150,000 jobs are threatened in European weaving.

The big volume of imported fabrics has damaged the cotton spinning sector as well in terms of reduced sales to the weaving industry and a fall in prices. Some 70,000 jobs are threatened in European spinning. In addition, the downstream cotton industry (household and garments) depends on the viability of European weaving for a significant part of its raw material supply.

For the EU to renounce sanctions on unfair trade practices would amount to encouraging fraudulent predators.

J.A. Oliveira, president, Eurocotton, 24 rue Montoyer, 1000 Brussels, Belgium

# John Gapper on Rothschild's attempt to answer its doubters

## Dynasty's new direction

"It requires a great deal of boldness, and a great deal of caution, to make a great fortune; and when you have got it, it requires 10 times as much wit to keep it." So said Nathan Mayer Rothschild, the leading figure of the Rothschild banking dynasty, at a dinner party in 1834.

His remark came 20 years after the Rothschilds made their fortune in hunking in the Napoleonic wars. Some 150 years later, the family's share capital employed in banking has grown to \$Fr962m (\$760m), but the challenge of building on that fortune remains as tough as ever.

The disclosure that \$760m is the equity committed to Rothschild Continuation Holdings, the family's Swiss holding company, is part of a broad effort to demonstrate to a sceptical world that Rothschild remains a banking house of undoubted solidity, as well as being suitably managed.

"You do not have to be huge. I believe that if you are efficient and well managed, you can achieve the same ends," says Sir Evelyn de Rothschild, chairman of Rothschild Continuation and N.M. Rothschild & Sons, its London bank.

Yet Sir Evelyn, the dominant force in the family over the past two decades, faces hard questions about the future of his venerable banking house. The share capital of Rothschild Continuation - 25 per cent of which is held by outside investors - is impressive in terms of private wealth, but is dwarfed by the resources available to many of its competitors.

Furthermore, the family is often accused of running its investment banking operations in an antiquated manner. Sir Evelyn is regarded as an overly dominant figure within the London bank, while the other parts of the empire have operated more as a federa-



Family values: Sir Evelyn de Rothschild (left) and his most likely successor, Baron David

tion of businesses than a single force.

Quite apart from such doubts, it has been an unhappy year for the Rothschilds. The sudden death of Amschel Rothschild, head of its asset management operations, led to further public scrutiny of the family and of the issue of who will succeed Sir Evelyn when he finally steps down.

In recent months, Sir Evelyn, 65, has been making changes intended to answer the doubters. As part of these, Baron David de Rothschild, Sir Evelyn's 34-year-old cousin, who rebuilt Banque Rothschild in Paris in the early 1980s after bank nationalisation, has emerged as his most likely successor.

The latest changes came last Friday, when Sir Evelyn announced that the Rothschild hunking business in Australia will be combined with London treasury operations. It will use the capital of N.M. Rothschild in the UK and Australia, and have the ultimate backing of Rothschild Continuation.

The group will eventually have five divisions, managed as a global business. These include investment banking, Rothschild's best known activity apart from gold trading. It has a particular niche in advising on privatisa-

tion and is advising Deutsche Telekom on its \$10bn public offering.

Such changes are plainly aimed at a wrench for Sir Evelyn, who says that creating businesses from the centre is a US trait. "Americans are centralists, and Europeans are the other way. Our culture is not centralist, but the market has moved and we must move," he says.

Baron David, who chairs the London-based investment committee in charge of advisory work, says: "My static organisation is moving forward. There is always a balance between continuity by product and by geography. We want a harmonious mixture."

Baron David appears to be playing his enhanced role in London, where he is deputy chairman of N.M. Rothschild. Sir Evelyn has an enormous personal responsibility, and he says: "I could help to push things forward. It is interesting to be involved, and I love it," he says.

Baron David says family links help to make things run smoothly. "It is better to work together rather than fight. It is amusing for people to be for feuds, but there are no feuds."

"I do not know who Evelyn's successor will be. I hope he stays a long time, because he is doing a big job, and we do not need a power play. To make a success, we must work quite hard together. In due course, we will see what happens," he says with a smile.

The collapse of Barings and the sale of the weakened S.G. Warburg Group to Swiss Bank Corporation last year have raised the stakes for family-owned merchant banks. But Baron David says this has its positive side: "As there become fewer of our species, I think our chances increase. It is the difference between having a dedicated doctor or going to the hospital. The hospital may have absolutely first-class equipment, but you often want something different, a more personal touch."

Given the balance sheet of Rothschild Continuation, and the healthy profits of N.M. Rothschild, there is little danger of Nathan Mayer Rothschild's fortune being squandered. But Sir Evelyn and Baron David will require a great deal of boldness to construct a truly global investment bank.

"The City of London: A World of Its Own" by David Kynaston, Chatto & Windus

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FINANCIAL TIMES

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Monday October 28 1996

# How to help Russia

Two worrying and related developments have dominated the news from Moscow over the past week. One is the fact that efforts by the International Monetary Fund to co-manage Russia's economic recovery have run into difficulty. The IMF is expected to suspend payment of the latest tranche of its \$10.2bn credit because of the government's failure to collect taxes, and its slowness in opening the bond market to foreigners.

The other development is the warning from Russia's defence chiefs of "uncontrollable developments" in the military because of a funding crisis. While they are capable of crying wolf to extract extra funding, the latest crisis seems the most severe since the Soviet collapse.

This might, therefore, seem a bad moment for the IMF to be tightening the screws on Russia. While the further rationalisation of Russia's economy is enormously desirable, the safe control of its still vast arsenal is surely even more important.

In fact, however, both the tax collection problems cited by the IMF and the looming disintegration of the military are symptoms of a single problem that Russia needs to tackle quickly, with or without western prompting. The problem is an extreme lack of transparency in the way money is collected and disbursed by the Russian state.

Instead of raising revenue fairly and consistently, the government has created a web of tax privileges for its friends.

Expenditure, particularly military spending, presents an equally murky picture. The finance ministry complains that it has no idea where much of the notional military budget goes. The spectacle of generals with vast, opulent homes, while conscripts lead a nightmarish life of brutality and malnutrition, prompts many observers to suspect the worst.

The IMF will do nothing for the governance of Russia, or its own credibility, by throwing more money at either of these problems. It is entirely justified in holding back the latest tranche of its loan.

On the other hand, problems in the Russian armed forces may have reached the point where some well-targeted western aid is needed to assist military rationalisation and avoid a dangerous breakdown. The successful Nunn-Lugar programme for dismantling nuclear weapons has demonstrated the usefulness of helping the ex-Soviet military to streamline itself. But if any more aid is given, it should part of a clearly identifiable and strictly conditional credit line, separate from the IMF's economic recovery plan. If the west is urging transparency on Russia, it needs to exhibit clear thinking too.

# Internet pricing

The Internet, having survived the allegation that it is a haunt of pornographers, now faces the accusation that it is bringing the Californian telephone system to its knees. Pacific Bell, the local phone company, says 16 of its switching centres are experiencing problems of congestion caused by heavy Internet use. As Internet use expands, the problem will get worse. A "data tsunami", or tidal wave, is on its way, says Pacific Bell's parent company.

There is a specific issue here related to the fact that US phone companies mostly do not charge for local calls. This is popular with customers, but relies on the fact that the average voice call lasts four minutes. Internet sessions - which for many users start off over the local phone network - average 20 minutes. Some users stay connected to the Internet for hours at a time.

The obvious answer is to impose a small per-minute charge, either for local calls or for Internet connections. Such a move will be unpopular, and Pacific Bell's doom-mongering is no doubt partly intended to soften up telecoms regulators and public opinion.

More broadly, however, the issue reflects big changes in the economics of telecommunications over the past decade. Traditionally, providing local calling capacity was cheap, and building long-distance or international links was expensive.

Now, thanks to fibre-optics, micro-waves and satellites, the world is awash with long-distance capacity, but the cost of providing local access is unchanged. Yet in most markets long-distance calls are cheap - sometimes, as in the US, free.

The tensions this creates are vividly illustrated by the Internet - not merely in the case of Californian web-users, but also by the growth of "Internet telephony". This is not so much a technological breakthrough as a way of arbitraging between the flat-rate pricing of Internet access and the historically high charges for international phone calls.

The explosion in Internet use is not, whatever frightened phone companies may say, a threat to the world telecoms infrastructure. Like other innovations, however, it is a threat to traditional telecoms pricing. Until the industry's charging structure is overhauled, it risks sending the wrong signals to users and suppliers. Such errors in signalling can create apparent shortages of capacity or just as bad but less noticeable - artificial underuse of abundant resources. The challenge the Internet poses to the telecoms industry and its regulators lies in economics, not technology.

# UK economy

If the miseries of unemployment could be cured by adding a few drops of inflationary finance to the economic engine, who would refuse the remedy? The question has been asked many times in the UK since the second world war, with Tories applying the lubricant as much as Labour.

Mr Kenneth Clarke, the present chancellor, is unlikely to imitate Reginald Maudling's blatantly electioneering Budget of 1963, nor Anthony Barber's mad horrowing spree of a decade later (when unemployment was less than half its present level). But will he avoid the mistakes of the late 1980s, when Nigel Lawson, a chancellor bedecked with medals from earlier campaigns against rising prices?

Ten years ago, inflation was subdued at 3 per cent (compared with 2.9 per cent now, excluding mortgage interest). Unemployment, although dreadfully high at more than 3.2m (1.1m above the present figure), was starting to come down. Manufacturing output had still not recovered to its level at the end of the 1970s, but, as now, was moving in the right direction.

It was at that point that the then Mr Lawson started to make a series of mistakes from which the economy is only now shaking itself free. His over-expansion brought inflation, recession, rising deficits and debt. Yet the increase of public spending in autumn 1986, when monetary policy began to ease,

was welcomed by many. Inflation, they thought, had been tamed.

Now, once again inflation seems subdued; once again an election is looming; and once more a Tory chancellor is under political pressure to permit a "prudent" easing of policy.

There is one lesson from history: any slackening now would be liable to take effect at the wrong moment. Next year most forecasters, including the Treasury's, expect the economy to be picking up speed - with annual growth of perhaps 3½ per cent or more. This is exactly when it will not need an extra push. The second lesson is that even with 2m unemployed, an economy with too much momentum can trip up, sprawling into inflation.

Wage costs are now under better control than in the mid-1980s, when average earnings were rising at about 7.5 per cent a year, almost twice the present rate. Consumer spending is buoyant, manufacturers predict a recovery from lean times, and gross domestic product growth is accelerating. Good news. But it carries warning signs: surveys suggest people are losing the fear of the dole, while skills shortages are appearing in the Midlands. Unit labour costs are rising at an annual rate of 5 per cent. House price inflation has picked up sharply to about 6½ per cent in the south...

Watch out, Mr Clarke. The UK may have been here before.

# Components makers: going global



Million sellers of 2000  
Estimated production of top-volume platforms

Manufacturer	Platform	Core car	Volume
Toyota	Corolla	Corolla	1.4m
Volkswagen	A	Golf	1.4m
General Motors	Delta	Astra	1.3m
Ford	CW170	Escort	1.1m
Ford	BW153	Fiesta	1.0m
Volkswagen	AD	Polo	1.0m
General Motors	Gamma	Corsa	1.0m

Top five platforms, 1995  
Production in major markets

Company	Platform	Europe	US	Japan	Total
Toyota	Corolla/Prizm	319,529	660,000	670,000	1,649,529
Volkswagen	Golf/Jetta	731,087	115,602	0	846,689
Ford	F-series	0	771,819	0	771,819
General Motors	C/K	0	713,827	0	713,827
Fiat	Punto	666,705	0	0	666,705

Putting together the pieces  
the main international deals of 1996

Date	Transaction	Value (\$bn)
January	Tomkins (UK industrial group) buys Gates Rubber of the US (brake systems parts and hoses)	1.32
February	Bosch (German electronics) buys Bendix (hydraulic brakes) subsidiary of Allied Signal of the US	1.5
April & July	Breda Technologies (US components maker) buys Momo (steering wheels) and Gestino Plasturgia (plastics) of Italy	N/A & 0.125
May	Lucas (UK auto and aerospace parts) and Vartley (US industrial group) merge	4.8
July	Tenneco Automotive (US suspension and exhaust systems) buys Pullman (US engine mounts)	0.5
July	Johnson Controls (US seating and interiors) buys Prince Automotive (US interiors)	1.35
September	Magna (Canada, pressings and seating) buys Douglas & Lomason (US seating)	0.135
September	Dana (US body parts) buys Sealed Power (engine parts) division of SPX group (US components maker)	0.235
October	Autoliv (Swedish airbag maker) to merge with Morton group's Autovision Safety Products (airbags and airbags subsidiary (US components))	4.0

Source: Automotive News, FT

# Star parts for bit players

Carmakers are driving components companies towards a consolidation of the global market, writes Haig Simonian

Every Friday, at precisely 7am Detroit time, the top purchasing managers of General Motors, the world's biggest car company, pick up their telephones for a two-hour conference call. The discussion is scheduled to unite executives in the five continents where they work without disturbing their sleep.

On the agenda are the group's plans for future cars and trucks, and what these may require in the way of such important parts as tyres, brakes and airbags.

Such a call would have been inconceivable a few years ago. Until the 1990s, even such multinational carmakers as GM operated through separate regional divisions or subsidiaries. Each built different models, depending on its market. Today, leading carmakers plan new vehicles on a global basis. Production runs for some popular cars will easily exceed 1m units a year - double present volumes.

Higher volumes and greater standardisation have triggered an upheaval among component suppliers. In the biggest change in its history, the once-diversified components business is being rationalised as large specialists gobble up the minnows. "The number of suppliers for many key parts will be whittled down to two players, maybe three," says Mr Richard Snell, chief executive of Tenneco Automotive, a leading US components group.

GM's globe-spanning telephone call highlights the two fundamental trends shaping the process. As economic growth spurts car ownership in new markets, carmakers are building factories from Botswana to Brazil. But rather than designing different models for each region, they are standardising around "world cars", such as Ford's Mondeo (known as the Ford Contour and Mercury Mystique in the US), to contain spiralling development

costs.

While internationalising production and exploiting economies of scale, carmakers are trying to cut the costs of future vehicles by buying more components from outside sources. Both developments are having a profound effect on the components industry, which depends largely on the vehicle makers for its livelihood.

"Globalisation is forcing people to act," says Sir Colin Hope, chairman of T&N, the UK components group.

The changes are being dictated by multinational vehicle makers. GM alone spends about \$70bn (£44bn) a year on parts, says Mr Tom Fahus, head of its US vehicle purchasing operation. Mr John Devine, Ford's chief financial officer, says: "You go from making a product that's around 400,000-500,000 units to a product that's 1.5m. There's an enormous cost-saving there on parts."

Many new car and truck plants are in regions such as eastern Europe or China where the local components industry is in its infancy. To ensure reliable and prompt supplies, carmakers are inviting their components suppliers in more advanced economies to follow them into new markets.

The reward for suppliers is not only new business but also the prize of becoming the exclusive worldwide source for a crucial component on a new, possibly global, car. Volumes can be very large. Fiat expects to build about 1m a year of its new Palio model when production peaks. Ford made almost 650,000 of the Mondeo/Contour/Mystique at its European, US and Mexican plants last year. Output of its smaller Fiesta, manufactured in Europe and Brazil, and soon in India, should exceed 900,000 units a year by the end of the century.

The changes in the industry have created the opportunity for components companies to make a wider range of parts and for the vehicle makers to turn to their

suppliers for items they once made themselves. The main reason for outsourcing is cost. Pay in the components industry is often considerably below that in car plants, meaning component makers can produce more cheaply than a car company.

Such cost advantages are often multiplied by the fact that big components specialists supply more than one carmaker, giving them greater economies of scale than those available even to a mammoth such as GM.

Carmakers' enthusiasm for outsourcing lay at the heart of the recent dispute between GM and the Canadian Auto Workers union, which also affected GM's US plants. Although the agreements being negotiated between the big three US carmakers and the United Auto Workers union of the US may slow the trend towards outsourcing, details remain sketchy and it is unlikely that the move will be reversed.

In some cases, car companies have even sold component factories to parts specialists in return for long-term exclusive supply contracts. GKN, the UK maker of constant velocity joints, is now Fiat's exclusive supplier of such joints in Italy and Poland. TRW, the US auto components and aerospace group, has done the same with Fiat and Renault for steering gear and valves.

Outsourcing can offer carmakers more than lower prices. It can release precious working capital - otherwise tied up in a low-margin business - for more profitable investment in their core activities. Research and development costs are also borne by components companies. Together, globalisation and outsourcing have triggered a wave of mergers and takeovers in the components industry as suppliers react to the vehicle makers' needs for lower prices and global sourcing.

This year has brought five \$1bn-plus takeovers, while the total value of big transactions announced since January is nearly \$15bn (see table).

Further consolidation appears inevitable, according to Mr George Simpson, until last month chief executive of Lucas, the UK components company. He expects the number of leading components companies to shrink to 15-20 global groups over the next decade, compared with about 10 times that number today.

Mr Simpson, now chief executive of General Electric Company, the UK engineering and defence group, should know. His former employer recently completed this year's largest merger - a \$4.9bn marriage with Vartley, the big US components and engines group. Lucas/Vartley will be one of world's top three suppliers of braking systems.

Acquisitions and big mergers are expected to accelerate as other companies with global ambitions sweep up smaller regional components makers.

US components companies have been among the most aggressive acquirers internationally. Mr Woody Morcott, chairman of Dana, a big US body components group, expects foreign sales to reach 50 per cent of turnover in 2000 against 31 per cent in 1994.

In certain products, the biggest rationalisations have already taken place. Car seats have now been concentrated among three producers - Johnson Controls and Lear of the US and Canada's Magna; the braking business is dominated by Bosch, Lucas/Vartley and ITT of the US; Arvin and Tenneco Automotive account for the bulk of exhaust systems and shock absorbers; Autoliv and Morton will dominate airbags and seatbelts.

Yet consolidation is still resisted, especially in Europe. French carmakers reacted angrily to signals from Mr Carlo

De Benedetti that Cerus, his French holding company, was prepared to sell its 28 per cent stake in Valeo, the French-based lighting and parts group. Mr Jacques Calvet, chairman of Peugeot-Citroën, and Mr Louis Schweitzer, the Renault chairman, came out against Valeo falling prey to a US counterpart. The stake looks set to be sold to Compagnie Générale d'Industrie et de Participation, a friendly French holding company.

Another arranged marriage took place this month to ensure Bertrand Faure, a French seating and interiors company, remained in national hands after a Peugeot-Citroën subsidiary bought a majority stake in the holding company that indirectly controls the group.

Such hostility partly reflects carmakers' fundamental worry over consolidation. While their search for economies of scale has led them to promote rationalisation among suppliers, the process will inevitably make them more dependent on their suppliers.

Mr John Warshawski, co-author of a report on suppliers by A.T. Kearney, the management consultants, and the University of Michigan, confirms components companies and carmakers are becoming more interdependent. Instead of inviting suppliers to annual bidding contests, vehicle makers are forging longer-term bonds with suppliers by global supply deals and outsourcing, says the report. That means the carmakers are helping to create companies that will be more equal partners than the smaller, regionally based manufacturers they dominated in the past.

Already many of the new vehicle plants being built around the world envisage much closer interdependence, with large parts of the shopfloor run by components companies. The vehicle makers will remain in charge, but the balance is shifting towards their suppliers.

# OBSERVER

## Full Borer response

Switzerland has gone on a war footing. After suffering weeks of allegations over shady dealings with Nazi Germany, the country is preparing the counter-attack. Thomas Borer, 39, a little-known diplomat, has been given the job of repairing the country's battered international reputation following a long-running bombardment of accusations and half truths from Alfonso D'Amato, chairman of the US senate banking committee.

The senator may be a loose cannon domestically, but he is proving to be a formidable enemy for the Swiss - who have mostly responded by setting up yet more committees. Last week, two new government taskforces emerged, with mandates that seemingly overlap with the independent panel of experts already being formed.

The Swiss excuse is that the taskforces are needed to deflect enemy fire in the short term, while the yet-to-be-named expert panel studies the issue in peace.

It is now Borer's job to get things moving. A lawyer who has shaken up the internal management of the foreign service, he was also in charge of sorting out the delicate problem of the Swiss ambassador to

## Lage no lout

Canadian ministers and bankers involved in this week's visit by Cuban vice-president Carlos Lage will be meeting the island's leading economic reformer in what is the highest official contact between the two nations for 30 years. They may well also wonder if they are talking to 70-year-old president Fidel Castro's successor.

Lage, 44, is one of the younger, reform-minded Cuban technocrats who have come into the limelight since the collapse of the Soviet Union forced Cuba to seek stronger trade and investment ties with the west. A former leader of the Young Communists' Union, Lage was promoted to the ruling Communist party politburo in 1990 and became vice-president in 1993.

Having started out as a paediatrician, it is now his job to administer carefully measured - and diluted - doses of market-style reforms to a nation still marked by Soviet-style command economics.

## Looks good

Norway's new premier Thorbjørn Jagland will have to work hard if he is to emerge from the shadow of his bustling predecessor, Gro Harlem Brundtland.

But there is nothing remotely grey about finance minister Jens Stoltenberg, a dashing fellow of just 37 years who has been rising swiftly through Labour's ranks since he started on the party newspaper in 1979.

No doubt it has not hurt that his father, Thorvald Stoltenberg, was foreign minister and the UN mediator in the Balkans during the worst days of the war in Yugoslavia. His mother Anna has also served as a senior bureaucrat in Oslo.

In one respect, though, Jagland's choice of young Jens is something of a surprise. In 1992,

## Not so Doleful?

There is hope for Bob Dole yet. Because, on Saturday night, the New York Yankees won baseball's World Series.

In the five election years in which they have previously been in the finals, their three titles have coincided with a Republican taking the White House, their two defeats with a Democratic victory. This time, they came from behind - as Dole must - losing the first two games at home against the Atlanta Braves before winning the next three away and clinching the series back in the Bronx.

Mind you, most of the other widely watched indices - polls, the stock market, hen lines - tend to favour Bill Clinton.

## 100 years ago

**Gluttony and Insurance**  
In the Life proposal form of the Royal Insurance Company we observe: "Are you and have you always been of temperate habits as to eating and drinking?" The query as to eating is a searching one, and must drag many a sensitive conscience backwards to the recollection of Sunday School treats and Christmas dinners; but we question whether a proposer will ever acknowledge that he ate too much in the past. With the view of keeping his policy indisputable, many a man will own to long past intemperance in the absorption of liquids, but gluttony is so seldom recognised by the most experienced exponent of it that the plea of not guilty will be invariable.

## 50 years ago

**The Diamond 'Racket'**  
"I have to be very, very careful that anything I do does not destroy the value of diamonds in the market," declared Mr. A. Creech Jones, Secretary of State for the Colonies, when he spoke of mineral resources in the Colonial Territories during the weekend. Referring to the recent diamond discovery in Tanganyika as the "richest in the world," he declared: "It may be a desirable thing that I should enter the diamond 'racket'."

Important Impression of auditing amazing  
Linguistic exactitude  
Amplifying

direction





## German tax rises 'could break ruling coalition'

By Frederick Stüdemann in Berlin

Tensions in Germany's ruling coalition became public yesterday as several high-ranking members of the liberal Free Democratic party, the junior coalition partner, criticised the policies of Mr Theo Waigel, the finance minister.

Senior FDP figures warned that the coalition was at risk if Mr Waigel proposed increasing taxes to cover a likely DM7bn (\$4.7bn) shortfall in the 1997 budget.

The budget gap has arisen because of the breakdown 10 days ago of talks with the opposition Social Democrats over government plans to postpone a rise in child allowance payments.

Speaking to the magazine Der Spiegel, Mr Wolfgang Gerhard, FDP chairman, said he was exasperated by the lingering uncertainty over the true state of government finances.

He said he was tired of "having to discuss budgets with new numbers on a weekly basis".

Mr Gerhard said his party would not support any new tax rises and warned that the coalition would come to an end if Mr Waigel ignored the FDP's stance.

As evidence of the FDP's recognition of Mr Waigel's difficulties, Mr Gerhard pointed to his party's agreement to bridge some of the budget gap by postponing until 1998 a cut in the "solidarity tax" - a 7.5 per cent income tax surcharge to pay for reconstruction in eastern Germany. It was now the turn of the finance minister to make sure there were no further rises in either spending or taxes.

Mr Guido Westerwelle, FDP general secretary, said his party's recent rejection of a proposal by Mr Waigel to raise petrol taxes had created a "firewall" against efforts to

use tax rises to balance budgets.

The finance minister was also criticised by Count Otto Lambsdorff, the FDP's economic spokesman, who in an interview with the Berlin newspaper Der Tagesspiegel called on Mr Waigel to make further spending cuts.

Mr Peter Hünneke, general secretary of Chancellor Helmut Kohl's Christian Democratic Union, dismissed the FDP's attacks as "threatening gestures and unjustified allegations" and advised the FDP to concentrate on its own problems.

Meanwhile Mr Gerhard Schröder, a leading opposition figure, was criticised on all sides for a newspaper interview in which he said European monetary union should be postponed. Mr Schröder told Bild Zeitung: "I have ever-increasing doubts over whether we will be able to meet the criteria for monetary union."

## Tung urges tightening of Hong Kong links with China

By John Riddling in Hong Kong

Mr Tung Chee-hwa, the shipping tycoon and a front-runner to head Hong Kong's post-colonial government, yesterday pledged to defend the territory's way of life but said closer co-operation with China was needed to secure a successful transition.

"We have to preserve our lifestyle," he said, referring to the transfer of the territory's sovereignty from Britain to China on July 1 next year. "That is the responsibility of the chief executive. That means freedom of thought, freedom of movement, freedom of capital and freedom of the press."

While Mr Tung was confident about the handover - citing the "parallel interests" of Beijing and Hong Kong - he expressed concern that political wrangles had distracted the territory from economic and social issues and the challenge of regional rivals, such as Singapore.

He claimed the Hong Kong government "could have done much better" in its handling of relations with the mainland, outlining a strategy of co-operation with Beijing rather than confrontation.

His remarks came as the selection process for chief executive enters its final stretch and as Mrs Anson Chan, one of the staunchest defenders of Hong Kong's autonomy, announced that she would not be seeking the post.

In a move that will reassure the local and international business community, however, Mrs Chan, the respected head of the civil service, said at the weekend that she wanted to play an active role in the transition. Mr Tung said he would seek to retain Mrs Chan in her post of chief secretary.

With Mrs Chan confirming she will not run, and with applications closing today, Mr Tung is seen as a strong contender to steer Hong Kong through the transition.

Rivals include Mr Peter Woo, a businessman, Sir Ti Liang-yan, the former chief justice, and Mr Simon Li, a former appeals court judge.

A decision is due by early December, when a candidate is expected to be nominated by a Beijing-backed committee and appointed by the Chinese government.

Mr Tung's stance on political development and support for China's plans to replace the territory's elected legislature marked a breach with Mr Chris Patten, the Hong Kong governor, who has said that the move could destabilise the territory. "We have very different views on that," Mr Tung said.

### THE LEX COLUMN

## Europe in focus

From the Mediterranean to the Baltic, companies are changing faster than you can say European corporate restructuring. Sluggish economic growth, low inflation and strong currencies are forcing companies to become more competitive.

Cost cutting remains the starting point for improving profitability, such as this year's rationalisation at Switzerland's big banks, and the apparently relentless job reductions at Philips and Siemens. But as the shareholder value culture spreads, companies are latching on to more imaginative ways to improve returns.

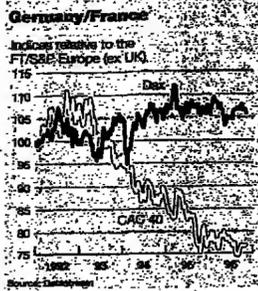
Focus is increasingly in vogue, particularly in Germany, where the landscape is dominated by diversified holding companies. Daimler-Benz has sold off a host of non-core activities in the process of turning itself back into a more modest, but more profitable, carmaker. Meanwhile, Hoechst is preparing to unlock value by demerging its pharmaceuticals arm, while French conglomerate Compagnie Générale des Eaux intends to spin off its telecoms businesses.

Concentrating on fewer activities is allowing companies to expand their remaining core businesses. Airlines and automotive component manufacturers have been consolidating for years. But the trend is spreading to regional businesses like retailers: Germany has seen the merger of Kaufhof and Asko into Metro, while France's Auchan supermarket took over smaller rival Docks de France.

The next phase, still in its infancy in Europe, will be financial restructuring. Dividend growth still ranks as a low priority on the Continent, while share buy-backs are illegal in many countries. That is slowly changing and Sweden and Switzerland may lift restrictions in the next 12 months. But German approval for share buy-backs is likely to be delayed until a more general reform of the tax system in 1998.

Even so, Germany has embraced the idea of shareholder value with the greatest enthusiasm. And with average returns on equity of 9 per cent, against 17 per cent in the US, there is huge scope for improvement.

Brokers estimate that successful restructuring could add 20 per cent to German equity values. By contrast, France, despite a more shareholder-friendly legal and fiscal framework, has yet to show much cultural change. The next five years



Indices relative to the FTSE Europe (ex UK)

### Landing slots

How much is an airport landing slot worth? Given the likelihood that the European Commission will let slots be openly traded, it is a question worth trying to answer.

In theory, the picture should be clear: where slots are in short supply, they should be worth the capitalised value of the profits a buyer could extract. But this varies hugely. Profitability on short-haul flights is often marginal. But from each slot used for long-haul flights, according to BZW estimates, British Airways makes average post-tax earnings of \$4.5m (\$7m) a year. At BA's price/earnings multiple, that implies a slot could theoretically be worth \$60m or so - depending on the value of the slot at the other end of the route. Using the same kind of analysis, BZW reckons BA's Heathrow slots alone are worth \$4bn-\$5bn.

Ultimately, values like this could greatly strengthen airline balance sheets. But a sharp increase in the value of an airline's assets would not in itself increase its market value. On the contrary, it would just show that its return on assets is lower than it previously looked.

What will make a financial difference is incumbent airlines selling or leasing slots to others. Certainly, if slots become tradeable, airlines will less often hang on to slots on the off-chance they may one day be wanted. The result should be a better allocation: less profitable short-haul operators will have a strong incentive to sell to long-haul operators and shift their services to less prestigious airports. And as in telecoms, the result should be a healthy rebalancing as more competition

brings fast long-distance margins under pressure.

But this is probably too neat a picture. A big international airline using a slot for a not very profitable short-haul route will not necessarily be keen to sell to a competitor running a long-haul route instead. After all, it could use the slot for a long-haul route itself. And it may not be doing so for good reasons: short-haul routes are usually worth more than they seem thanks to the feeder passengers they bring.

For this reason, international airlines are unlikely to be big net sellers of slots. Far more plausible candidates are short-haul operators like British Midland, which has lots of Heathrow slots but could perfectly well fly from elsewhere. With US airlines queuing up to crack into Heathrow, it is almost certainly sitting on a gold mine.

### Retail banking

The idea of having your groceries double as your banker would until recently have seemed absurd. But with companies as diverse as Microsoft and Marks and Spencer turning their hand to financial services, J. Sainsbury's plan to launch a bank seems less remarkable. It does, however, underline the extent of the challenge high street banks are facing. Retailers are betting that the combination of customer loyalty, strong brands and the present reputation of many banks presents a good business opportunity. Given the rich profits available from retail banking, they have every reason to try. In the case of Bank of Scotland, Sainsbury's joint venture partner, the decision to participate was easy: it has only a limited presence in England. But a bank like Barclays faces a more acute dilemma: on the one hand, it risks cannibalising its own customers in such a structure. But if it is going to lose them anyway, it should try to grab some of the spoils. NatWest's decision to co-operate with Tesco can be viewed in this light.

While the new pretenders have a clear lead over the banks on service, they don't hold all the aces. Inertia will prevent many customers moving, while others will still be happier trusting their life savings to a conventional bank. Retailers will also need to be careful they don't damage their franchise by generating customer dissatisfaction in areas tangential to their main interests.

## UK Labour

Continued from Page 1

on BBC television's *On the Record* programme, stressed that the determining factor should be what he calls "convergence of real economic performance" such as investment, employment and output.

The issue, he said, was "straightforward". "Will this decision help or hinder the creation of jobs in Britain?" If that were so, the attractions of a single currency would be clear. But he added: "Until we are confident that we have done that it could be very risky for Britain to give up the option in future of devaluing if that was necessary."

The prime ministers of Austria, Portugal and the Netherlands have given open support to what they see as Labour's more positive view on Europe.

## EU wealth

Continued from Page 1

report. But so is the failure to close the economic divide between the prosperous south and the north of the UK.

The report challenges government claims that the whole country benefits from Conservative economic policies and could provide the opposition Labour party with political ammunition in the campaign for the general election which must be held before the end of May. The British government yesterday rejected the report's findings.

The commission report avoids specific comment on the success or failure of national policies. It relies instead on comparative economic data to illustrate the differences between member states.

## EU set to close telecoms loophole

By Alan Cane in London

The European Union is set to close a loophole in its value added tax laws which enables overseas telecommunications companies to undercut local operators. Temporary legislation could be in place by January 1 next year, with a permanent ruling a year later.

Under current rules, telecoms operators not registered in the EU can supply services VAT-free, but EU-registered suppliers must charge the full tax rate. The UK says this leads to "distortions of competition and loss of revenue". The UK has asked the European Commission to change the rules temporarily, pending a permanent amendment of EU law. Customs authorities in other EU states are backing the move because of concern about the effect of the loophole on local operators. New rules involving registration could cost non-EU companies substantial international market share and "tens of millions of dollars", according to Mr Tom Elliott, worldwide managing partner for communications businesses at accountants Arthur Andersen.

Mr Richard Baxter, senior tax manager for Arthur Andersen, said: "Some companies are fearful that if they register for VAT in certain countries they might expose themselves to further forms of corporate taxation."

The rule change is most likely to hit newer operators, call-back services set up to circumvent high European long-distance tariffs, and information services such as CompuServe, whereas large operators such as AT&T will not be affected.

Metropolitan Fibre Systems, a fast-growing US-based operator targeting business customers in the UK, France and Germany, said it was able to bill international customers free of VAT because of the rules.

Ms Pat Chapman-Fincher, MFS director of commercial operations, said the company was aware of the tax authorities' concern and was in talks to ameliorate the effects of the loophole's closure. It was also afraid the rule change would discriminate against financial services groups, educational organisations and charities which would be unable to reclaim VAT.

## India consumer imports

Continued from Page 1

than double its exports to \$75bn by the turn of the century, would be able to afford more imports as its exports rose. "We will not act under any kind of pressure," he said. "A process which can be sustained on a long-term

basis is what we can offer." India also had to consider the protection currently granted to small and medium-sized industries which have exclusive rights to manufacture 836 listed consumer items, such as footwear, garments, glassware, radios and some electronic goods.

### WEATHER GUIDE

#### Europe today

The British Isles, western France, the Benelux and northern Spain will have plenty of rain. There will be gales in the English Channel and southern part of the North Sea. Southern Scandinavia, northern Germany and Poland are expected to have rain. The Balkans will have sunny spells. Serbia and Hungary will have occasional showers. Southern Europe will be dry and sunny with temperatures reaching 24C in southern Spain.

#### Five-day forecast

The British Isles will be dry with sunny spells on Tuesday and Wednesday. More rain is expected by Thursday. The Benelux and central Europe will be unsettled. The Alps will have plenty of rain and snow. Italy and the Balkans will have heavy showers or thunderstorms.

#### TODAY'S TEMPERATURES

Abu Dhabi	sun 32	Beijing	sun 18	Caracas	fair 32	Faro	sun 23	Madrid	sun 20	Rangoon	cloudy 32
Accra	shower 30	Belfast	rain 11	Casablanca	sun 22	Frankfurt	cloudy 18	Manila	fair 21	Reykjavik	fair 0
Algiers	sun 24	Berlin	drizz 13	Chicago	sun 12	Geneva	shower 16	Melita	rain 14	Rio	shower 30
Amsterdam	rain 16	Birmingham	fair 26	Cologne	drizz 17	Glasgow	sun 21	Manchester	sun 21	Rome	fair 20
Athens	fair 16	Bombay	sun 31	Dallas	sun 31	Hamburg	rain 10	Mexico City	cloudy 20	S. Frisco	sun 21
Atlanta	shower 27	Brussels	fair 22	Delhi	sun 31	Heidelberg	rain 7	Moscow	shower 25	Singapore	shower 32
B. Aires	fair 29	Budapest	drizz 17	Dubai	sun 32	Hong Kong	fair 29	Mumbai	sun 29	Stockholm	shower 11
B. Ham	rain 15	Ch.agen	rain 10	Dublin	rain 13	Honolulu	sun 31	Nairobi	cloudy 15	Strasbourg	fair 18
Bangkok	shower 32	Cairo	fair 23	Edinburgh	rain 10	Jakarta	sun 31	Naples	cloudy 12	Sydney	shower 22
Barcelona	fair 20	Cape Town	sun 21	London	rain 17	Jakarta	cloudy 30	Nassau	fair 5	Taipei	sun 22
				Luxembourg	drizz 14	Kuala Lumpur	rain 17	Norfolk	shower 16	Tel Aviv	shower 23
				Lyons	fair 18	London	sun 26	Norfolk	fair 29	Tokyo	rain 12
				Madrid	fair 24	Las Palmas	sun 26	Norfolk	fair 29	Toronto	rain 18
						Lima	fair 21	Norfolk	fair 29	Vancouver	rain 12
						Lisbon	sun 20	Norfolk	fair 29	Venice	cloudy 14
						London	rain 17	Norfolk	fair 29	Warsaw	rain 6
						Luxembourg	drizz 14	Norfolk	fair 29	Washington	shower 22
						Lyons	fair 18	Norfolk	fair 29	Wellington	rain 17
						Madrid	fair 24	Norfolk	drizz 13	Winnipeg	fair 8
								Norfolk	drizz 13	Zurich	cloudy 15

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# SWISS BANKING

## Buffeted by stormy seas of change

Switzerland's bankers are battenning down the hatches. The most pressing problem which they must face is the low profitability of their traditional domestic banking business. William Hall reports

Every generation of bankers likes to believe that the challenges they face are more demanding than those that confronted their predecessors. But for once Switzerland's bankers may be right. It is hard to remember a time when the country's banking system has been buffeted by so many conflicting forces.

At a domestic level, the banks are having to come to terms with a Swiss economy which has stopped growing for the past five years. The combination of a steadily appreciating Swiss franc and a stagnant economy have taken a heavy toll on bank customers.

According to the statistics of the Swiss Bankers Association (SBA), the country's banks have been forced to more than double their provisions over the period, to a massive SF2.6bn, while their combined net profits of SF725m between 1991 and 1995, are only SF2.5bn higher than in the previous five years.

Meanwhile, at an international level Swiss banks, as a proxy for Switzerland, are facing the most concerted attack on their reputation for probity in decades. Allegations about Switzerland's war-time role in handling looted Nazi gold, and accusations that its banks are still sitting on billions of dollars which belong to the survivors of victims of the Holocaust, are undermining Switzerland's efforts to shake off its image as a loosely-regulated financial centre whose advantages are based on a belief that the less questions asked the better.

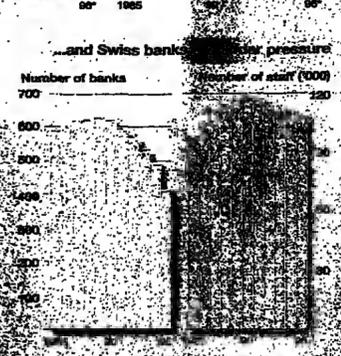
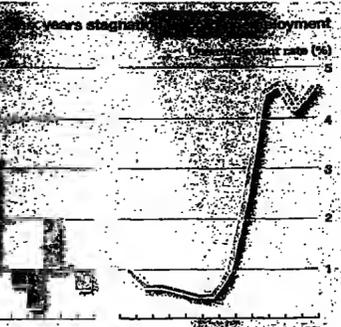
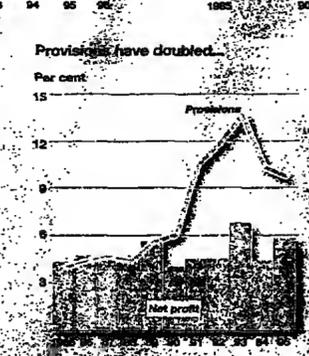
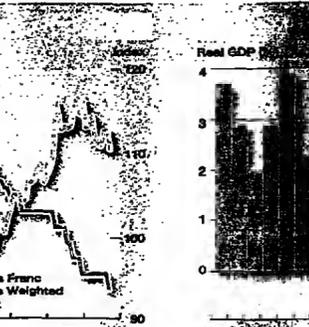
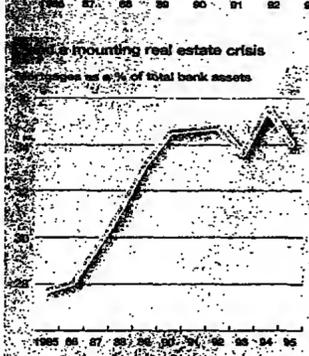
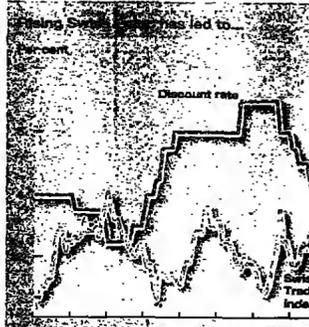
This background would test the business judgment of even the most seasoned Swiss banker. However, the level of uncertainty has been raised by the arrival of a new generation of younger bankers at the top of the big three Swiss banks: Union Bank of Switzerland and Swiss Bank Corporation have both appointed

new chief executives since the start of the year and Mr Lukas Mühlemann, chief executive of Swiss Re, the world's second-biggest insurer, takes over as chief executive of Credit Suisse, at the end of the year. Meanwhile, Mr Hans Meyer has taken over as chairman of the Swiss National Bank and Mr Daniel Zuberbühler, as director of Switzerland's Federal Banking Commission, which supervises the country's 400-plus banks.

For Switzerland's Big Three banks, the most pressing problem is the low profitability of their traditional domestic banking business. For years, the substantial profits from their private banking operations, where Switzerland is the world leader, have disguised the very low returns on domestic banking.

Credit Suisse's response has been to axe a third of its outlets and shed 3,500 jobs, or about 15 per cent of its domestic workforce. Swiss Bank Corporation is cutting its branch network by a third and Union Bank of Switzerland is expected to announce a similar restructuring next month. The cutbacks have damaged morale among Switzerland's 109,000 bank employees and have not gone down well in the rest of Switzerland. But the action is overdue, and necessary, if Swiss banks are to continue to play a role on the world stage out of all proportion to the size of their domestic market.

Mr Rainer Gut, Credit Suisse's chairman, says that Swiss banks are caught up in a "tide of structural change against which it is impossible to swim". Such comments will probably raise a wry smile from Mr Martin Ebner, the maverick Swiss financier who has mounted a long-running campaign against Union Bank of Switzerland, the country's biggest bank. He claims that it has not been running its business in the best interests of its shareholders. The same accusa-



tions could easily be laid at the door of the other two Swiss banks.

However, the question "Did they jump, or were they pushed?", is increasingly academic. Swiss banks may not have been the first in Europe to put their house in order. But the speed with which they are now addressing the problem of overcapacity in their home market is a lesson to banks in neighbouring countries such as France and Germany.

The big three Swiss banks have signalled very clearly that they do not intend to let the problems of their domestic operations undermine their obvious international ambitions. Such moves are leading to a rapid breakdown of the traditional ways Swiss banks go about their business. They are still big supporters of the SBA and would probably backball Mr Ebner again, if he ever tried to join their club. But their cosy relationships are increasingly a thing of the past. The old interest rate cartel has long since disappeared

and the time has probably passed when the SBA could be relied upon to find one of its bigger members willing to take over a troubled bank and remove it from the Swiss Banking Commission's problem list.

Ten years ago, it would have been unthinkable for Mr Rainer Gut, the chairman of Credit Suisse, to publicly propose a merger with UBS, his bigger rival, as he did earlier this year, and then be rebuffed. In the past, such matters would have been settled behind closed doors. However, the banks are much more conscious of their competitive stock market ratings and are no longer afraid of embarrassing each other in public if this is to their competitive advantage.

The changes under way at the big three banks, which account for more than half of Switzerland's bank assets, are mirrored right the way through the Swiss banking system. The need for outside capital is putting increasing pressure on the dwindling number of private banking partnerships and it seems only a mat-

ter of time before the exclusive Swiss Private Bankers Association, which traditionally supplies the president of the Swiss Bankers Association, has to open its doors to private banks with limited liability.

The state-owned cantonal banks, which have a 30 per cent share of domestic retail banking, are experiencing equally dramatic changes. They have been even more exposed to the collapse of the Swiss real estate market than the Big Three and their local communities are increasingly unwilling to shoulder future losses. Some have decided to sell their cantonal banks. UBS recently bought the Appenzell Kantonalbank and local voters have agreed to the partial privatisation of the Cantonal Bank of St Gall, Switzerland's seventh-biggest bank, it is expected to be a precedent which will be followed by other cantonal banks.

These moves, together with efforts to bring the cantonal banks under the direct supervision of the Federal Banking Com-

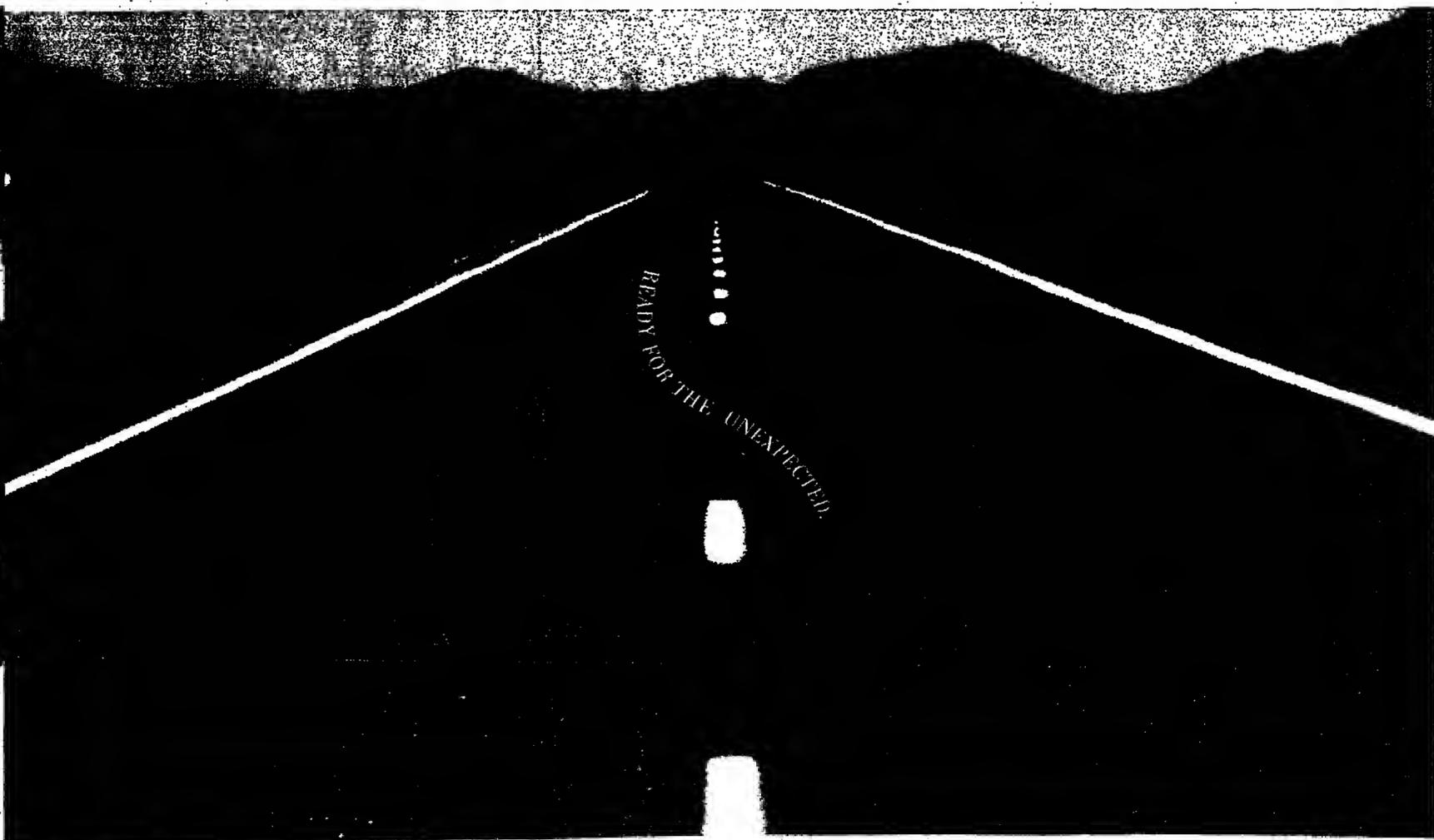
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Production Editor: Philip Sanders

DEMAN n focus

GROUP



How can a healthy company suddenly find itself on the skids? Often lie hidden round the bend. If the market drives off in an unexpected direction, management can only watch anxiously as cash flow erodes and nervous investors unload stock. It's a bumpy road, until repairs begin to have their effects. There is no guarantee that your decisions will lead you in the right direction. There can, however, be a safety barrier to help you control their consequences. We call it financial risk management. It goes without saying that only a leading global insurer has the strength to provide the tools for financial shock absorption. By the same token, we feel we have a more urgent obligation than others to come up with new ideas. Especially if they are directed at minimizing our customers' risks.



2 SWISS BANKING

■ The economy: by Frances Williams

# Pick-up expected to be modest

The strong Swiss franc must bear much of the blame for the recent woes

Six years of economic stagnation have jolted the Swiss out of their habitual complacency. With growth of just 0.2 per cent annually so far this decade, Switzerland's economic performance has been worse than any European country except Finland.

The latest news on the economy annihilated any vestige of hope that this year might see the end of the longest recession since the second world war. Gross domestic product fell in the spring quarter (the sixth successive quarterly drop) and most commentators are predicting zero or negative growth for the full year.

The pick-up in economic activity next year is expected to be only modest, variously forecast at 0.5-1.5 per cent, and no real recovery is likely before 1998.

Mr Hans Kaufmann of Bank Baer in Zurich, who is predicting a 0.8 per cent drop in GDP for 1996, says downward revisions to growth in 1994 and 1995 imply a lower level of economic output this year than in 1990 when the construction-led rapid growth of the 1980s came to an abrupt and painful halt.

Because the Swiss population has risen by more than 5 per cent in that time, this would suggest "a significant reduction in the per capita standard of living", Mr Kaufmann points out.

Unemployment, which peaked at over 5 per cent in early 1994, is now 4.6 per cent and rising again. These jobless rates, though low by international standards, are still shockingly high for most Swiss who lived with virtually full employment for nearly half a century.

Sweeping plans to restructure the domestic banking system announced by Switzerland's big three banks, and the merger of Ciba and Sandoz, the Basle-based chemicals giants, have also contributed to an unprece-



Consumer confidence is at rock-bottom. Retail sales are in the doldrums. But the ground for an upturn has nevertheless been prepared

dent sense of insecurity now felt by many Swiss workers.

A survey published in July found that seven in 10 Swiss workers feared unemployment or wage cuts. Consumer confidence is at rock-bottom. Retail sales are in the doldrums.

The strong Swiss franc must bear much of the blame for the country's

recent woes. Regaining its reputation as a haven currency for nervous overseas investors, it has appreciated by 15 per cent over the past three years and reached record levels in 1995 against the dollar and other leading currencies.

Despite a weaker trend this year the franc is still too strong for comfort, leaving many Swiss companies

struggling to stay afloat and savaging the important tourism industry which is experiencing its worst recession since the war.

Even the Swiss National Bank admitted earlier this year that the franc was "massively overvalued" - but failed to do anything about it until the summer when it became clear that the economy, far from

picking up, was sinking deeper into the morass. Mr Georg Rich, SNB chief economist, even expressed fears that Switzerland could be facing a 1930s-style deflation with falling prices.

In August, the SNB began injecting funds into the money markets to bring short-term rates down and, on September 27, cut the official discount rate by half a point to 1 per cent, its lowest level since 1978. It did so despite above-target money supply growth which the SNB attributed to a shift in demand for liquidity by the banks.

"The decision was taken to create the best conditions for the Swiss economy to stage a recovery when activity picks up in Europe, without being neutralised by an over-strong franc", Mr Jean-Pierre Roth, SNB deputy director, said later.

The SNB move has had some effect in weakening the franc but analysts are split over whether the downward trend can be sustained. Mr Keufmann of Bank Baer thinks it can, given the wide interest differentials between the franc and other currencies.

Others believe the franc will remain at the mercy of capital inflows at times of exchange rate turbulence and uncertainty over the European Union's planned common currency, the Euro. "A certain overvaluation of the Swiss franc will continue", says Mr Peter Buomberger, chief economist at Union Bank of Switzerland.

The ground for an upturn has nevertheless been prepared. Interest rates are low. Inflation is running at 1 per cent or less - which means prices are broadly stable, by the SNB's definition. Producer prices have been falling steadily since last year. "Currently, no inflation danger is perceptible on the horizon," says Mr Alois Schwietert, chief economist of Swiss Bank Corporation.

But the impetus for growth is lacking. Exports and investment in plant and equipment, the only buoyant sectors in recent years, have begun to run out of steam. Consumer spending remains depressed; construction is in free fall; and the government is battling to rein in the budget deficit - a task made all the harder by the recession.

Calls for counter-cyclical investment to stimulate the economy and create jobs have fallen on deaf ears, although in the longer term high hopes are being pinned on the government's SFR30bn plan to drill two new rail tunnels under the Alps.

Making things worse in the near term is the sluggish performance of neighbouring economies, which take the bulk of Swiss exports. Germany alone accounts for a quarter of Swiss goods sent abroad. "We can't create good weather in Switzerland if it's bed in our neighbours", Mr Roth admits.

■ The stock exchange: by William Hall

# Delays have plagued electronic bourse

The EBS is far more than a cost-effective dealing and settlement system

Switzerland's image as a country where everything works like clockwork took a bit of a knock in the run-up to this year's launch of the country's new electronic stock exchange.

The project has been plagued by delays and has cost more than was planned. It got off to a bad start when trading in some of Switzerland's best known blue chips had to be halted because inexperienced traders hedged in the wrong prices.

The project, known as the Elektronische Börse Schweiz (EBS), has been under way since 1992. It was originally scheduled to cost less than SFr80m and begin operating in March 1995. In the end it appears to have cost about SFr125m, with member banks investing as much as another SFr500m in converting their dealing rooms and back-office systems. Electronic trading in foreign shares began last December, but trading in Swiss equities and bonds did not get under way until August 1996.

The EBS is far more than an efficient and cost-effective dealing and settlement system. It has been used as the excuse to weld together Switzerland's three competing stock exchanges (Zurich, Basel and Geneva) and Soffex, the options and derivatives exchange.

A new stock exchange act has been passed to ensure transparency and equality of treatment of investors. And it has also triggered an important overhaul of the regulatory system with power for supervising the securities industry being transferred from cantons - who often treated the exchanges as useful revenue earners - to the Federal Banking Commission.

Against this background it is no wonder that there were some early grumbles. In many respects the institutional challenges posed by the conversion to electronic trading, have probably been more onerous than the technical challenges which have been blamed for the delays.

The transition from a traditional stock exchange to an electronic exchange has introduced powerful changes in business relationships, professional skills and cost structures. The number of people able to trade under the new system, for example, has more than doubled to more than 1,200, which has led to criticism from old-timers that the new traders are

unprofessional. The changes have led to compromises and the rather odd situation that the new Swiss stock exchange seems to be run by a series of committees.

Mr Jörg Fischer, chief executive of Bank J. Vontobel, is chairman of the exchange and has been acting as its effective chief executive. If the Swiss stock exchange really wants to capitalise on its new trading system to strengthen its international competitive position it will probably need a full-time chief executive in the longer term.

In the short-term, however, the new electronic trading system seems to be running much more smoothly than some had predicted. The early problems which resulted in embarrassing trading halts in the shares of Swiss blue-chips such as Roche, ABB and Swissair, have been solved by a modest change in the rules.

Mrs Antoinette Hunziker

**There is continuous trading in all shares rather than just a few blue chips**

Ebneter, a member of the exchange's management board, says that the new system is proving to be "very fast and stable". She reckons that 90 per cent of all trades are being done in less than two seconds.

Dealing spreads on big shares, such as Ciba, have narrowed from SFr5 to SFr2, and in some cases are down to SFr1. There is more liquidity and there is continuous trading in all shares now rather than just a handful of blue chips.

Mr Daniel Schweizer, managing director of European equities at Swiss Bank Corporation, shares her enthusiasm. Under the new system, his dealers can get a much better view of the market from the current order position, to details of trades completed. Mr Schweizer says that this gives him a much clearer feel for his market share and the continuous trading of shares makes it far easier to complete complicated index arbitrage transactions.

"When you were trading 800 different products in four different trading rings, as was the case with the old open outcry system, there was no chance to trade them all permanently," says Mr Schweizer. If there was an important announcement affecting Sandoz or Ciba, for

example, it was often impossible to deal in the shares of Roche or Nestlé.

Overseas brokerage houses have also noticed the change in tempo. "It is a lot easier to judge where you can buy and sell in volume," says the head trader of one US firm. "Before, you had to rely on brokers' opinions."

One drawback is that there are still limits on the size of transactions which must go through the market. Trades of more than SFr200,000, for example, can be conducted outside the market. However, they are reported after a delay and the improved transparency of transactions is reducing price distortions. Inevitably, this works to the benefit of the big firms and undermines the rationale of some of the smaller stock exchange members who specialised in profiting from these market inefficiencies.

"In the old days, banks might have taken advantage of these price inefficiencies to bolster their profits," says one trader who believes that as a result there are "quite a lot of unhappy people in some of the smaller banks".

Trading in August and September has been running well below the levels earlier in the year. Mrs Hunziker believes that this may partly reflect the elimination of arbitrage between the three regional stock exchanges. However, it also reflects an understandable caution on behalf of traders until the new system has been tested in terms of its reliability and capacity.

However, Mr Marcel Ospel, chief executive of Swiss Bank Corporation and a member of the stock exchange board, believes that the advantages of Switzerland's new trading system are of a temporary nature. "The key question facing the Swiss exchange concerns its future role in an increasingly international environment and a market," says Mr Ospel.

This involves delicate questions such as whether non-members should be given access to Switzerland's new trading market and what constraints should be placed on the enthusiasm for listing increasingly sophisticated trading products.

The speed of technological change is such that despite the initial euphoria over the successful launch of the EBS, its long-term future in an era of rapid technological change cannot be assured.

Mr Ospel's view is that the exchange should make the most of its new technical advantages to decide on its future strategy. The successful launch of EBS is just the first step.

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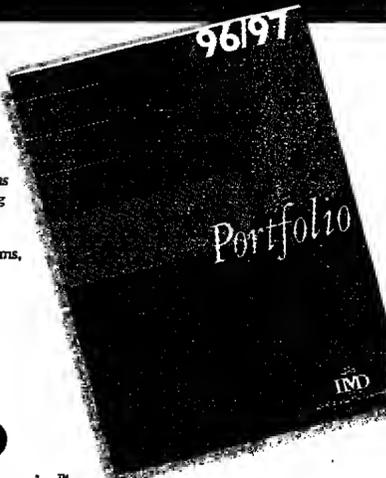
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Retail banking: by William Hall

# Cut-backs are gathering pace

### Low profitability has prompted banks to take the axe to their branch networks

Switzerland has always been regarded as one of the world's most over-banked countries. With close to 4,000 bank branches serving a population of 7m, it has about 40 per cent more banking outlets than Sweden, which is a bigger country.

Since 1990 the number of bank branches has fallen by about 10 per cent and the numbers employed in domestic banking have fallen by roughly 1 per cent a year from a peak of 120,000 in 1990. However, the pace of contraction has accelerated over the past few months as first Credit Suisse, and then Swiss Bank Corporation, announced swinging cuts to their domestic branch networks.

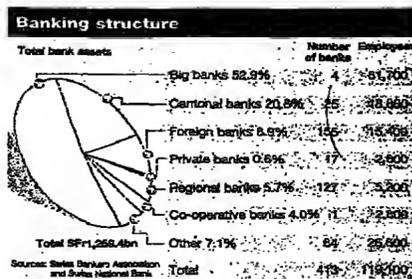
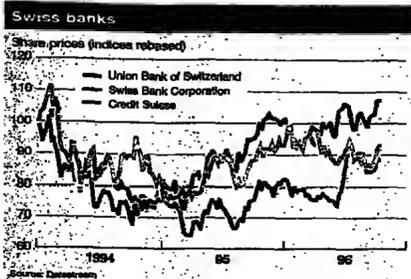
The reasons for the change of pace are not hard to find. The Swiss economy has stagnated for the past six years. The banks' loan loss problems in the real estate market, which had been a target for aggressive expansion in the early 1990s, have spread to other sectors with the result that Swiss banks have become increasingly conscious of their domestic operations is damaging their ability to finance their ambitious international expansion plans.

In the past they tried to repair their domestic profits by buying market share. In 1993, Credit Suisse bought Swiss Volksbank, Switzerland's fourth-biggest bank, and a year later New Bank of Argovie, Switzerland's largest regional bank.

UBS acquired 150,000 new customers by buying five regional banks in 1994. Swiss Bank Corporation added an extra 30 new branches with the purchase of the privatised cantonal bank of Solothurn, plus various other small regional banks.

However, continuing pressure on costs and rapid changes in technology have raised serious doubts about the wisdom of buying market share. The big three Swiss banks may control more than half of Switzerland's bank assets, but in the retail banking market, their market position is far less dominant. The state-owned cantonal banks have almost as big a branch network as the big three Swiss banks. Add in the networks of the regional banks and the local *raiffeisen* banks - community banks which specialise in mortgage lending - and the big three banks only account for a quarter of total domestic bank outlets.

Meanwhile, the PTT, Switzerland's state-owned postal and telecoms service, appears to be preparing to attack the retail banking market. It already has a dominant position in domestic money transfer with 1.6m giro accounts and it is mov-



ing rapidly into electronic banking.

More than 1.3m micro processor-equipped Postcards are being used for cashless payments and withdrawals from automatic teller machines. Nearly half of its 3,600 outlets are equipped with electronic terminals which allow customers to conduct all their postal transactions on a cashless basis. Last month, the PTT signed up Swiss Bank Corporation to help it begin selling savings products to its customers. The PTT is due to be privatised before the end of the decade and this is expected to increase the likelihood that it will become a mainstream competitor in the retail banking market.

At the same time, super-market chains such as Migros are cultivating their natural customer base to expand their retail banking activities. Migrosbank, for example, underlined its increasingly aggressive approach to the retail banking market by leading the recent round of mortgage rate cuts following the Swiss National Bank's decision to cut its discount rate.

The big Swiss banks may have been slow in responding to the increasing competition in Swiss retail banking, but they are now moving quickly to put their business on a more profitable footing. Their strategy is to cut their cost base by cutting

the number of small branches.

Credit Suisse, which probably has the biggest share of the retail market, has been the most ruthless in the pruning of its domestic branch network. In July it announced that it was combining its own branch network with that of the recently acquired Swiss Volksbank, which had been run as a separate unit.

Of the combined group's 376 branches, there was dual representation in 234 locations. Under the restructuring plan, Credit Suisse will amalgamate its branches where there is an overlap and close another 21 outlets. As a result, it is cutting its total retail network by a

third and reducing its domestic workforce by 3,500 or 15 per cent over the next three years.

The cutback in Swiss Bank Corporation's retail banking operation is less severe. It is reducing the size of its domestic branch network by about a quarter and cutting staff numbers by 1,700, or just under 10 per cent. Most of the branches it is closing employ between three and six staff.

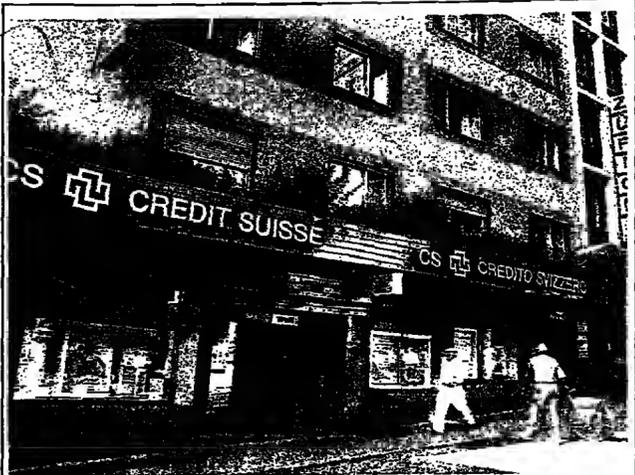
The big unknown for both Swiss Bank Corporation and Credit Suisse is whether the sharp cutback in the size of their retail banking network can be completed without damaging their customer base. Both banks are betting heavily that the benefits of economies of scale and investments in state-of-the-art processing technology will strengthen their competitive edge in servicing retail customers.

Swiss Bank Corporation, in particular, believes that its future success in retail banking lies in strictly separating its sales and back-office procedures. It has invested heavily in three regional back-office technology centres in Basel, Geneva and Zurich. It likens them to factories where highly specialised, centralised units produce customer-driven internal processes and basic services such as payment systems, and securities management.

Union Bank of Switzerland, the biggest of the three banks, is expected to announce its own domestic restructuring towards the end of November. After the cut-backs, Credit Suisse and Swiss Bank Corporation, will each have just under 250 branches apiece. At the end of last year, UBS had 324 domestic outlets which suggests that there could be room to trim branch numbers by about 10 per cent.

Fortunately for UBS, it has kept its personnel costs and staff numbers under better control than its rivals. Nevertheless, it is well aware that the shift towards self-service banking, via telephone or personal computer, is reducing the volume of face-to-face business transacted over traditional branch counters.

Mr Rainer Gut, chairman of Credit Suisse, said earlier this month that Switzerland was "caught up in a tide of structural change against which it is impossible to swim".



Credit Suisse: 'Heavily involved in direct banking in Switzerland and active in PC banking'

Interview: Paul Meier of Credit Suisse

## Excess capacity 'dented profits'

Credit Suisse, the market leader in Swiss retail banking, was the first to announce a big restructuring of its Swiss business. Mr Paul Meier, 51, the new head of the group's domestic business, explains the pressures which led to the changes and the challenges facing Swiss retail bankers:

**Question:** What are the main factors affecting profitability in Swiss domestic banking?  
**Answer:** The profitability of Swiss domestic banking has been dented by excess capacity and the resulting pressure on prices. Interest rate margins in Switzerland have consequently been around half the European average.

**Additional factors** are the shake-out in the Swiss property market - which has been going on for several years - and a weak economy which has kept the banks' provisions at a high level. UBS has reported that loan problems in the Swiss real estate market have spread to other sectors of the economy. Is this your experience?

By the end of the 1980s the property markets had overheated. Real estate speculators and developers, who were sitting on their property, bore the full brunt of the collapse. Current estimates put the average fall in Swiss residential property prices since their peak at the end of the 1980s at between 25 per cent and 30 per cent. Industrial property prices have, in places, fallen even more sharply.

This has made the situation difficult for the construction sector which still accounts for 13 per cent of GDP. Meanwhile unemployment has risen above 4 per cent - a level

not seen in Switzerland since the 1930s. And because the Swiss economy remains weak, despite all the predictions to the contrary, we expect loan loss provisions and write-downs to remain high in the years ahead.

How do banks in Switzerland compete when they are selling very similar retail banking products?

First, you need to offer a distinct package of products and services geared as closely as possible to customers' needs, making banking simpler for them by providing them with straightforward solutions.

Second, strong customer retention through high levels of customer care and professionalism can do much to distinguish one bank from another. Successful banks are gearing their services more and more towards customer groups with similar needs, offering them tailor-made products at competitive prices.

**Banks are having to invest heavily in new technology.** How is this changing the role of bank branches and the local bank manager?

Credit Suisse is heavily involved in direct banking in Switzerland and is active in PC banking. We are examining all the opportunities the Internet has to offer and will certainly take advantage of them as soon as the matter of security has been resolved to our satisfaction and that of our customers.

Our telephone bank has been profitable since its second year. Direct banking has a bright future as an alternative to traditional distribution channels. However, the cost of developing these new instruments will require enormous financial resources and will have a profound impact on the banking landscape.

The traditional branch network will be deeply affected, although it will not be replaced altogether. In fact, I am certain that it will contribute significantly towards our maintaining the necessary relationship with our customers.

What are the main benefits which will result from the combination of the domestic business of Credit Suisse, Swiss Volksbank and Bank Leu?

By combining the three banks we can continue to sell our products and services through a branch network that - in spite of the amalgamation - will still be extensive.

Our combined size will mean that we can avoid having suboptimal offices in small locations. This will enable us to offer a higher standard of customer service and produce our services more cost-effectively.

Meier: changes and challenges



The PTT appears to be preparing to attack the retail banking market



William Hall

ve plagued bourse

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4 SWISS BANKING

Private banking: by William Hall

# Club membership is dwindling

Despite a fall in the number of private banks, the Swiss still lead the sector

Switzerland's most exclusive club is about to become a little bit more exclusive. The 121-year old Bank Falck & Cie, the only private bank in central Switzerland, is being taken over by Julius Baer, a Zurich bank, and so will have to resign from the 17-member Swiss private bankers' association, which represents the dwindling number of private Swiss banking partnerships.

Julius Baer once belonged to the same club, whose members are unlimited liability partnerships, but quit in the mid-1970s. It needed access to outside capital to finance its expansion and wanted to make sure its business was not threatened by the problems of management succession which face small partnerships.

It floated its shares on the stock market as did J. Von-

tobel & Co, another Zurich private bank. By contrast, Ferrier Lullin & Cie, another well known Geneva private banking partnership, decided to sell out to Swiss Bank Corporation.

Fifty years ago there were 95 private banks. By the end of the 1990s, the total had shrunk to 22. Since then, numbers have fallen still further as Darier and Henisch, two Geneva banks, have merged. Vontobel has taken control of Geneva's Tardy, de Watteville and now Baer is buying 51 per cent of Falck, which is based in Lucerne and specialises in portfolio management.

The reasons given for the latest takeover have been well rehearsed before. Mr Rudolph Baer, chief executive of Baer, says his bank is keen to strengthen its position in central Switzerland and Falck wants access to Baer's international management skills. Nevertheless, they cannot disguise the fact that Baer has one thing that Falck does not - SFRbn in capital.

Private banking is not a

capital-intensive business but increasingly institutional customers like to see strong balance sheets, and the costs of modernising even a small fund manager's back-office computer system are rising inexorably.

However, the decline in the numbers of Switzerland's pure private banks does not signal that Switzerland's private banking industry, the biggest in the world, is in terminal decline. Far from it.

The bigger private banks, such as Pictet and Lombard Odier, are thriving. Mr Ivan Pictet, a partner in the family-owned bank, delights in not having to worry about his shareholders and Mr Thierry Lombard believes that his customers like to know that he and his partners' assets are on the line if the bank runs into trouble.

It is the sort of discipline which might have prevented the recent problems of Morgan Grenfell Asset Management or Barings. Private banks in Switzerland come in all shapes and sizes. Swiss Bank Corporation, the smallest of the big three banks, is believed to be the largest in terms of private banking. It does not disclose the size of its funds under management. But Chase Manhattan, a US rival, has estimated that SBC controls \$360bn. This makes it roughly six times as big as Pictet or Lombard Odier.

SBC recently revealed for the first time the profits of its private banking side. In the first half of 1996 it earned SFR451m from private banking which was more than the SFR433m earned by its SBC Warburg investment banking business. By contrast, the other two legs of SBC's business - domestic and the SBC Brinson money management - earned less than SFR50m in total.

Apart from Ferrier Lullin, SBC operates a number of other private banks such as Bank Ebinger in Basel, Armand von Ernst in Berne and Adler & Co in Zurich. It has recently acquired Standard Chartered's private banking business as well as a substantial portfolio of pri-

vate client relationships from Chase Manhattan and is on the look out for more acquisitions.

SBC's dependence on private banking is mirrored by the other big Swiss banks. However, they do not dominate the market in the same way that they dominate other parts of their business.

In addition to the Geneva private banks, and Zurich's Julius Baer and Bank J Vontobel, there are plenty of foreign competitors ranging from Mr Edmond Sutra's Republic National Bank of New York (Suisse) to Coutts, the up-market private banking arm of National Westminster Bank.

Switzerland's private banking market may be huge but it is very fragmented. There are varying figures on its size. Republic National Bank of New York estimates that \$2,300bn of the world's private wealth of \$35,000bn is managed outside the country of origin. The Swiss Bankers Association, by contrast, estimates that banks in Switzerland alone manage assets of SFR2,300bn

which gives it between 30 per cent and 40 per cent of the world total.

Meanwhile, Chase Manhattan recently estimated that the size of the global wealth market worldwide was \$12,000bn and growing at 7.5 per cent in the western hemisphere and 11.5 per cent in Asia.

The strategies adopted by the various banks vary considerably. Mr Albert Gowen, a senior executive with Coutts, which is banker to Britain's royal family, says that UK-style private banking grew out of the basic provision of banking services for wealthy individuals. Asset management and trust services were added later. In Switzerland, on the other hand, private banking started with asset management and banking services came later.

Meanwhile, the clientele is changing. Some banks, such as Coutts and Julius Baer, still stress the personal service aspect. This not only involves counselling customers about the state of the stock market but also providing others with advice on everything from the best golf club to arranging a home help if an elderly customer runs into problems. It is time consuming and expensive, but it builds up a loyal customer base.

Then there are the US banks, such as Chase Manhattan and Goldman Sachs, which are chasing a different part of the market. They believe that there is a substantial shift of wealth taking place as older generations hand over their fortunes to their children.

In the past, parents were concerned about maintaining the security of their money and were happy to leave it ticking up interest



Switzerland's bigger private banks, such as Lombard Odier, are thriving

on a time deposit, safely hidden from the prying eyes of the tax authorities.

The younger generation of private banking customers often have a completely different set of financial priorities.

Many have been to business school and sometimes know almost as much as the bankers about complicated financial products.

Chase Manhattan estimates that between \$7,000bn and \$10,000bn will be transferred within families over the next 25 to 30 years in the US alone.

At the same time, the geographical source of Switzerland's private bank customers is changing. The rapid

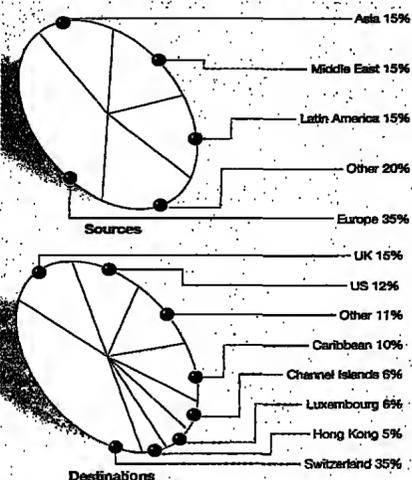
growth of the eastern Asia economies is generating a growing supply of billionaires with different attitudes and different financial demands.

Up to now Switzerland's private bankers seem to have been able to hold on to their market leadership surprisingly well. In the old days, the subject of investment performance was rarely mentioned, primarily because there was none. Now Swiss private bankers spend hours comparing their investment performance with the best on the international stage.

Nevertheless, Mr Günter Woernle, author of the *Wernli* directory of private banking and asset management in Switzerland, is less optimistic than some about Switzerland maintaining its market share. He believes that the trend towards more wealth being accumulated by institutions favours the money managers in London and New York.

Switzerland's advantages - political and financial stability plus bank secrecy - still make it an attractive private banking market. But Mr Woernle thinks that its rate of growth will start to slow.

World market for private banking



Source: The Chase Manhattan Private Bank

Swiss private bankers

Bank	City
Pictet	Geneva
Lombard Odier	Geneva
Darier Hérisch	Geneva
Bank Sengier	Basel
Falck & Bodmer	Zürich
Bordier	Geneva
Mirabaud	Geneva
La Roche	Basel
E-Gutzwiller	Basel
Baumann	Basel



Rudolph Baer: his bank is keen to strengthen its position

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PROFILE The banking ombudsman: Hanspeter Häni

# An uncomfortable job

Mr Hanspeter Häni, 46, has one of the most uncomfortable jobs in Swiss banking. As Switzerland's banking ombudsman, he not only has to deal with a regular stream of customer complaints about Swiss banks but he has also recently become the first point of contact for relatives of Holocaust victims who are trying to track down assets which may still be hidden in Swiss banks.

Mr Häni, a former banker, has had more than 900 inquiries since the Swiss banks decided last year to channel all future inquiries into claims on dormant accounts through his banking ombudsman's office in Zurich. He gets between five and 10 inquiries a day from relatives of Holocaust victims. This is roughly four times as many inquiries as he gets in his traditional role of fielding complaints from irate customers of Swiss banks.

However, he is anxious not to raise false expectations. He gets numerous letters along the

lines of "I remember my father telling me that he had deposited money in a Swiss bank. Unfortunately, I do not know which one..." or "I remember my father saying that he had gone to Switzerland..."

He does not hold out much hope of tracing assets on the basis of such flimsy evidence. Nevertheless, he responds to every letter by sending back a standard questionnaire in either German, French or English. This outlines the basic information needed to conduct a search and the cost: SF100 (it used to be SF200).

The Ombudsman's office requires evidence that an account, custody account or safe-deposit box could exist and also the name of the person involved. It also requires copies of official documents such as passports, birth certificates, testator's death certificate (if available), wills or other deeds of succession.

Although the material required sounds rather daunting, Mr Häni tries to be flexible. If someone can

prove that he is a grandson of a deceased dormant account holder, for example, then that may be enough to trigger a search.

It is mostly impossible for descendants of the victims of racial, religious or political persecution during the Nazi regime to provide the requisite documents. Therefore, substitute documents or personal statements can be submitted with appropriate explanations. The names and date of birth of the account holder are two most important items of information.



Häni: more than 900 inquiries

Mr Häni stresses that his office is only an intermediary between the authorised persons and the banks. His job is to assemble a list of names which he then circulates to each of Switzerland's 400-plus banks. He has just completed his third mailing.

The banks are then obliged to check their records. If a bank finds one of the names on its records it then takes over responsibility for dealing with the claimant and may demand extra information. If nothing has happened after two months from the date of sending out the circular, Mr Häni's office informs the claimant that the search has been unsuccessful. To date, he has issued about 300 negative responses.

The process of identifying whether an account exists should not be too difficult. One of the popular misconceptions is that Swiss banks control large numbers of anonymous numbered bank accounts. The Swiss Bankers Association says that there

are no anonymous accounts at Swiss banks and a bank has always to know the name of its client and, in case of doubts, to identify the beneficial owner.

Every bank should have the names on file of the person who opened a numbered bank account. If an account has never been closed, the name remains on the files.

The Swiss Bankers Association also stresses that Swiss bank secrecy laws should not obstruct the search for assets in any way. All that is needed is proof of identification so that the claimed assets are not handed over to the wrong person. However, some searchers believe that the bank secrecy laws do present a more serious obstacle because Swiss banks are not even allowed to confirm that a certain person is not a customer.

Mr Häni is under considerable pressure to show some positive results. He only has a staff of five (including part-timers) and his search procedures need refining. Once the names have gone out to the banks, Mr Häni's responsibility ends, which raises the question of who is responsible for making sure

that the banks discharge their obligations properly. Technically, it is the responsibility of the Swiss Banking Commission.

However, Mr Häni wants the banks to communicate the results of their searches

so that he can publish details of his success rate in helping people track down dormant bank accounts belonging to deceased relatives. Within the next few weeks, he plans to make his first public progress

report and hopes that he will be able to announce some positive results. The ombudsman's address is: Seestrasse 7, Postfach, 8027, Zurich.

William Hall

## Official inquiries into Nazi gold

The following official investigations into Nazi gold and other looted assets in Switzerland are being established:

● Swiss banks, in conjunction with the World Jewish Congress and other Jewish organisations, announced in May 1996 the formation of a committee of eminent persons led by Mr Paul Volcker, former chairman of the US Federal Reserve.

Swiss representatives: Klaus Jacobi, former state secretary, Curt Gasteyer, professor of international politics, Geneva; Professor Alain Hirsch, former vice-president of the Swiss Banking Commission; Hans Bär, private banker, Felder Mengiardi, a leading Swiss accountant.

Jewish representatives: Abraham Burg, chairman of the Jewish Agency; Reuben Beraja, chairman of the Latin American Jewish Congress;

Ronald Lauder, treasurer of the World Jewish Congress; Zvi Barak, chairman of the Jewish Restitution Organisation; Israel Singer, general secretary of the World Jewish Congress.

Terms of reference: to verify the search by the Swiss Bankers Association for unclaimed assets belonging to victims of the Holocaust.

● The Swiss government agreed in September 1995 to conduct a full investigation into the whereabouts of so-called looted assets which were stolen by the Nazis and deposited in Switzerland during the second world war.

The investigation will cover the extent and fate of assets of all kinds which were transferred to banks, insurance companies, attorneys, notaries, fiduciaries, asset managers and any others.

It will also cover the

wartime role of the Swiss National Bank and any post-war measures covering unclaimed assets taken by the Swiss government.

Composition of the panel of experts yet to be determined. Timescale: up to five years.

● US State Department announces earlier this month an investigation to be led by Mr Bill Stanley, chief historian, into Nazi gold in Swiss banks. It will undertake a "thorough and immediate study" of the retrieval and disbursement of Nazi assets after the second world war.

The review will focus on US diplomatic efforts in the post-war period, including US diplomatic contacts with the Swiss government. Aim: to provide a greater understanding of the role played by the US and other Allies.

Timescale: two to three months. Findings will be published.

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Insurance by Trevor Petch

# Revolution under way

Recent changes are likely to transform the shape of the market

The Swiss spend more on insurance than anybody else in Europe: an average \$3,587 a head in 1994, second only to the Japanese at \$4,850.

The industry is also highly concentrated, the top five life insurers accounting for about 80 per cent of the market and the top five non-life insurers about 70 per cent.

There is a sharp contrast between the life and non-life insurance sectors. In 1995, total life premium increased by 10.9 per cent from SFr21.2bn to SFr23.4bn as low interest rates stimulated demand for new savings-linked insurance, especially single premium products - although it also stimulated the tax authorities to take a harder look at the tax deductions traditionally available for personal provident savings.

In non-life, on the other hand, there was barely any growth at all, the total increasing from SFr13.2bn to SFr13.3bn. This year, some observers expected that non-life premium might even fall in cash terms for the first time since the second world war.

The reason is a revolution which is likely to transform the shape of the market. Motor liability insurance, the largest category of non-life insurance, was opened to individual price competition from January 1, and for a desirable client, some leading companies have been offering prices more than 25

per cent below what would have been asked in 1995.

Competition has entered the market with a vengeance as insurers seek to gain market share. For the first time, they are free to set their own terms and conditions, and there are doubts that every company has got its pricing right.

If that were not enough, the two leading insurers, Winterthur with a motor liability market share of close to 25 per cent, and Zurich with about 22 per cent, have both set up telephone sales operations offering large discounts to selected customers.

Zurich's operation, set up in mid-1994, has been in operation for longer, but Winterthur has extensive telephone sales experiences including Churchill Insurance in the UK.

Until very recently, almost everything about Swiss insurance which could be controlled, was controlled. Policy conditions had to be approved by the supervisory authorities; premium rates were set by cartels operated by the insurance association; and foreign insurers were subject to various types of discrimination.

Real change did not take place until January 1 1993, when after 15 years of negotiation a bilateral agreement on insurance between Switzerland and the EU finally came into force. This removed discrimination against European Union insurers seeking to set up in Switzerland, and introduced EU-style monitoring of insurers on the basis of financial solvency rather than the traditional close control over day-to-day operations.

Switzerland also abolished

policy and tariff approval over voluntary non-life insurances during 1993, and the life insurers' association stopped requiring members to adhere to its price cartel.

Nevertheless, the Swiss market still remains more tightly regulated than those of its EU neighbours. Cross-border insurance is still not permitted, protecting the Swiss insurance industry's position in cover of industrial and commercial risks in particular.

Swiss insurers themselves, on the other hand, draw just under 40 per cent of their total income from their home market compared to 42 per cent from EU countries, where they benefit from the single market through subsidiaries established in EU member countries.

Foreign companies still account for only about 15 per cent of the whole Swiss insurance market but are beginning to establish a better foothold.

In 1994, Swiss Reinsurance, the world's second-largest professional reinsurer company, abandoned its strategy of developing primary insurance operations in parallel, giving German giant Allianz the opportunity to acquire its Elvia subsidiary, the market number five. General of Italy has also bought Fortuna, one of the rare Swiss insurers to be offered for sale.

Almost uniquely in Europe, terms and conditions for life and health insurance, as well as all compulsory classes except motor liability, still acquire supervisory approval. In most of Switzerland, these compulsory classes include domestic fire insurance.

In 19 of its 26 cantons, all houses are required to be insured with the local public sector insurer, and in Vaud and Neuchâtel, these cantonal insurers have a monopoly over household contents insurance as well. Private sector insurers have for many years sought to gain access to these markets, so far with little success, but this year the Federal Price Bureau did order reductions in premiums in some cantons.

Sale of insurance over bank counters has so far made little headway compared with some other European countries. The pioneer has been the Zurich Group, which has had a distribution agreement with Swiss Bank Corporation for life business since 1992, extended last year to non-life.

Last year, Winterthur signed a distribution agreement for life with Credit Suisse First Boston with which it will also create a joint occupational pensions company. Together with Swiss Re, the two also participate in joint ventures aimed at developing innovative financial and insurance products.

The year 2000 is the target date for completion of full EU-style insurance legislation, due to be submitted to the Federal Council at the end of 1997 and to parliament before the end of 1999. Implementation, however, is likely to be slower still, and linked to any renewed Swiss application for EU membership or a further bilateral agreement, which the EU has so far resisted.

Trevor Petch is consulting editor of the Financial Times newsletter World Insurance Report

Swiss banks overseas: by George Graham

# Big Three have expanded

There are still considerable differences in culture between CS, SBC and UBS

Switzerland's leading banks realised long ago that their domestic market was too small for their ambitions, and began to develop their international operations.

Recent restructurings at the Credit Suisse and Swiss Bank Corporation groups, however, have made it startlingly clear just how dependent the Swiss banks have become on their overseas earnings.

Both groups split their activities into four areas: domestic retail banking, international private banking, international fund management, and international corporate and investment banking.

The aim is to publish financial information separately for these divisions, and the first indications from SBC reveal how important the three international divisions will be to the overall results.

SBC's management accounts for the first six months of 1996 show that private banking contributed net profits of SFr481m, and SBC Warburg, the London-based investment banking division, SFr433m, compared with just SFr35m from SBC Brinson, the group's asset management arm, and SFr14m from domestic banking.

Admittedly, Swiss domestic banking has been going through a rough patch, with higher-than-usual losses on real estate, in particular.

But even in its medium-term projections of results in 1999-2000, SBC still expects investment banking and private banking to contribute as much as three quarters of group profits.

While detailed breakdowns are not yet available from Credit Suisse or Union Bank of Switzerland, a similar picture is expected to emerge.

Although all of the big three Swiss banks have expanded their overseas investment banking, broking and fund management activities by a combination of acquisition and organic growth, considerable differences show up in style and culture.

The CS group was ahead of its competitors in developing an investment banking business. In 1978, Credit Suisse formed a joint venture with First Boston, a US investment bank; in 1988, First Boston was subsumed into the joint venture.

After this year's restructuring, Credit Suisse First Boston now includes not only the existing investment banking business built up under the CSFB name, but also the international corporate business of Credit Suisse, along with its Swiss investment banking.

CSFB's position as a member of the US "bulge bracket" gives it an international spread unique among European investment banks. With the failure of the US Congress once again to repeal the Glass-Steagall Act, which places restrictions on the blending of commercial and investment banking in the US, CSFB's comparative advantage, protected by grandfathering provisions, is likely to remain for a while.

But the firm has had its weaknesses, notably in its European stockbroking capability - something which would have been addressed had Credit Suisse's merger overtures to rival UBS earlier this year been accepted.

While it has proved it can win mandates on equity issues, it lacks the sales, trading and research which would secure its position as a leading European equities

house. Profits have been lower than its investment banking peers, too, although Credit Suisse Financial Products, the independent derivatives operation which will be grouped into the new Credit Suisse First Boston, is a highly respected and profitable operation.

Mr Allen Wheat, chief operating officer of the new CSFB, believes the combination will be stronger than its components.

"SBC Warburg, Deutsche Bank, and JP Morgan are all using their strength and their muscle. We were sitting there with just \$1.8bn of capital, trying to compete with them. You either

**UBS's dominant instinct remains financial caution**

shrink or you really have to grow," he said.

If the First Boston connection has shaped the character of Credit Suisse's international investment banking operations, UBS's defining move overseas was the acquisition of the London stockbroker Phillips & Drew.

That has left UBS with a particular strength in European equity broking and in institutional fund management.

Its PDPF unit is one of London's biggest pension fund managers, and at the moment one of the most controversial, because of its decision this year to keep a large proportion of its clients' money in cash because it believed the equity market to be overvalued.

In the US, Glass-Steagall would still make it difficult for UBS to acquire a large investment bank, but it has been making up over the past year with some aggressive recruiting. Appointments included Mr John Costa, head of US bonds at CSFB.

But where CSFB's culture is heavily impregnated with

the trading and entrepreneurial reflexes of New York, it is clear that UBS's dominant instinct remains the financial caution of Zurich - a caution that has helped to preserve its AAA credit rating.

SBC, meanwhile, had been something of a laggard, but its 1990 acquisition of O'Connor and Associates, the Chicago-based derivatives house, gave it an intellectual injection whose changes have been far-reaching.

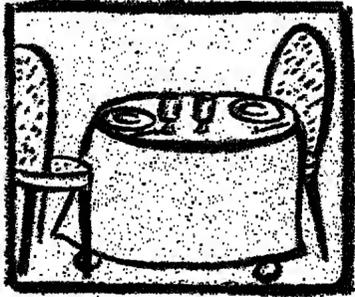
The sophisticated trading and risk control strategies of O'Connor whizzkiddies such as Mr David Solo and Mr Andy Siciliano have permeated the group. The influence of Mr Robert Gumerlock, another O'Connor mathematician who is now head of risk control at group headquarters, was widely perceived in SBC's innovative move this year to actuarial provisioning for its credit risks.

O'Connor's trading skills have been most felt at S.G. Warburg, the UK's largest independent investment bank before SBC took it over in 1995.

The merger of the SBC and Warburg cultures has not been without difficulties. Many in the corporate finance department, particularly, have left, and in some cases they took their client companies with them.

But the corporate finance business has not been as badly hit as some of the worst rumours suggested. In fact, SBC Warburg maintained its position with second place in the *Acquisitions Monthly* ranking of advisers on UK public company takeovers in the first nine months of this year with 11 deals worth \$5.2bn - behind a surprising UBS, which advised on 14 bids worth \$5.5bn.

And SBC Warburg's broking business has powered ahead since the merger, helped by improvements to its once shaky back office. Its UK equities business has an estimated 15-16 per cent of London marketmaking volumes, compared with 13 per cent for the two firms before they merged.



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# Critical developments

### A fresh era of competitiveness is encouraging the polarisation of the business

Fund management has long been a pillar of the Swiss banking industry. For decades, discreet Swiss bankers have quietly invested billions of dollars of clients' money, garnering a reputation for safety, sobriety and secrecy.

But in recent months, the leading Swiss investment houses are showing signs of disquiet. Two of the three largest banks, Swiss Bank Corporation and Credit Suisse, have announced a shake-up of their corporate structure which includes a reorganisation of their asset management divisions.

Credit Suisse's move in July effectively splits the fund management operations into two distinct corporate entities. These are Credit Suisse Private Banking, which is to be part of the bank's domestic Swiss activities, and Credit Suisse Asset Management, an autonomous division within the group's institutional banking arm, Credit Suisse First Boston.

Credit Suisse has not yet talked about the reorganisation's rationale, except for a pronouncement that: "The new structure responds to increasing globalisation and the needs of the group's markets".

Credit Suisse's competitor, SBC, which announced an almost identical structural reorganisation in May, cites the changing marketplace as part of its rationale. It has created a global institutional business, SBC Brinson, built around its US acquisition, Brinson Partners, which has an expertise specifically in international equities. It also formed a domestic business which covers the private client asset management divisions.

That changing marketplace, analysts say, reflects two critical developments. First and foremost, a new Swiss pensions law requires any employer of three people or more to create an occupational pension scheme. This has spawned a large number of schemes and, perhaps more significantly, has encouraged the managers of



Swiss Bank Corporation announced a shake-up of its corporate structure. Picture: Jasper Dohm/Presphoto

some existing schemes to think harder about the investment returns needed to provide benefits. And because equities have offered higher real returns than bonds, fund managers need to demonstrate their expertise in that area as well.

"Because of the introduction of compulsory pensions (in 1996), Switzerland has become one of the most important asset management centres in the world," says Mr Gabriel Herrera, managing director of Swiss institutional asset management at SBC.

"Plan sponsors are under heavy pressure," says Mr Dominique Ammann, partner in a pensions consulting firm which bears his name. The growth of so-called defined contribution

schemes in Switzerland - schemes whose ultimate benefits reflect combined contributions and investment returns - means that employers wishing to provide reasonable retirement income at low cost need higher rates of return.

And these employers have not been blind to the far more attractive rates of return achieved by UK and US investment professionals who have historically tilted their portfolios in favour of equities. Still more, the Swiss have noted the enhancement that international diversification of investments, particularly equity investments, can bring to a portfolio.

As a result, several non-Swiss banks, particularly US-based State Street Bank and Bankers Trust, have been able to make inroads into the tight Swiss market in the past two years.

"Three years ago, it wouldn't have been worth suggesting to our clients that they consider a foreign manager," says Mr Ammann. "Two years ago, they at least began to listen," he says, adding that many clients now are very receptive to the idea of a foreign manager for at least a portion of their portfolio.

Some data from Micropal, which measures the performance of retail investment funds, offers some interesting insights into the strengths and weaknesses of the domestic Swiss banks' track records in foreign equities.

Credit Suisse's Swissac domestic equity fund ranks in the top quartile of similar funds over one-year, three-year and five-year periods and its bond funds show similarly good performance. But its CS Tiger Fund, a Pacific Basin emerging markets fund which is one of the world's largest, ranked third out of four over the past three years and fifth out of

six in the year to June 30, 1996.

Mr Chris Poll, Micropal's chairman, says that the weaknesses of Swiss operators generally in international equities is likely to become their Achilles heel. Already, he says, some domestic Swiss banks are contracting out their international fund management services to foreign banks under so-called "white labeling" agreements.

"Swiss banks have operated in a closed-shop environment. But wealth is becoming more international," Mr Poll estimates that 50 to 70 per cent of Swiss assets are from non-domestic clients and these view their wealth as mobile. If the Swiss banks cannot offer competitive investment returns in foreign markets, the money will leave home and move abroad, he says.

Another factor increasing competition in the Swiss market, some bankers privately say, is the recent co-operation which Swiss authorities are giving to law enforcement officials in other countries is encouraging so-called "hot money" to move elsewhere. So Swiss bankers see fewer clients whose goals are the traditional simple ones of anonymity and capital preservation.

This new competitiveness, Mr Herrera argues, is encouraging the polarisation of the Swiss asset management business. "Either you are a competent local manager or you are a truly global player," he says. One indication of how competitive the market has become is that the Swiss Bankers Association has awarded InterSec, the US-based pension consultancy, a contract to measure the performance of individual Swiss funds, although none of its data may be released publicly. Also, from next January, the association has agreed a format for calculating performance, which banks may use in their marketing materials.

Another indication of the growing competitiveness is the use of professional consultants to help institutional clients choose a manager.

Mr Chris Nowakowski, president of InterSec, estimates that as many as two-thirds of institutional clients now use a consultant for at least a portion of their funds. This has allowed foreign fund managers to make first inroads into the traditionally closed Swiss market.

However, no one is suggesting the Swiss banks risk losing pole position in their home market any time soon. For one thing, restrictions on pension investments require heavy asset allocations in Swiss bonds and equities, the sectors in which the banks do best.

Second, the banks are demonstrating their determination to fight back by buying in expertise they do not already have. "If only the Swiss could combine their reputation and their name with ability and performance," says Mr Poll wistfully. "Then they could have this market sewn up." The only question is whether they have left it too late.



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Cheese-making in Toggenburg. Pension laws have changed

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## 8 SWISS BANKING

■ Who's who in Swiss banking:

## New generation at the helm

There has been a changing of the guard in the boardrooms of the big three Swiss banks and the Federal Banking Commission. William Hall introduces the new generation of Swiss bankers and bank supervisors:



Mr Marcel Ospel, 46, chief executive of Swiss Bank Corporation, runs the smallest of the big three Swiss banks. He is much younger than his two predecessors, Walter Frehner and Georges Blum, and has been the quickest to make his mark internationally.

Over the past few years, SBC has been transformed by a series of corporate moves, starting with the acquisition of O'Connor, a Chicago options and derivatives specialist, which have Mr Ospel's fingerprints all over them.

Mr Ospel joined SBC's planning and marketing department in 1977, after graduating from Basel's school of economics and business administration.

Within three years he had been posted overseas, first in London and then New York.

In 1985, he left to join Merrill Lynch, a US rival, and help set up its Swiss investment banking business. But within a couple of years he was back at SBC as head of securities trading and is credited with turning SBC into one of the top banks in the international capital markets.

Last year's £860m purchase of S G Warburg, the UK merchant bank, was his idea. If it works out, then Mr Ospel will be credited with one of the most astute moves in SBC's history.

If it does not, then SBC could be vulnerable to a takeover.



Mathis Cabiallavetta, 51, of Union Bank of Switzerland, is the oldest of the new bunch of chief executives and has the most conventional banking pedigree.

He joined UBS's economic research department in 1971 and has never worked for anybody else but UBS. But he should not be underestimated. He is a different calibre from many of UBS's previous chiefs who often seem to have been selected on the basis of their seniority in Switzerland's part-time army.

There is no question that Mr Cabiallavetta, a mere enlisted infantryman, has been chosen for his banking prowess rather than his military connections.

In 1978, he was made head of UBS's foreign exchange operations and most of his career has been spent on the trading side.

He is also more international than his predecessors. When he was aged 20 he moved to Canada and went to university in Kingston, Ontario, and Montreal, Quebec.

UBS-watchers hope Mr Cabiallavetta will be able to defuse UBS's long-running legal row with Mr Martin Ebner, the corporate activist, which is blocking the introduction of a streamlined share structure.

However, in the short term his most pressing challenge is to produce a convincing restructuring plan for UBS's domestic business.



Lukas Mühlemann, 46, who takes over as chief executive of Credit Suisse at the end of the year, is the big unknown. He is not a banker and has spent most of his life as a management consultant.

He started as a systems engineer with IBM, did an MBA at Harvard, and joined the McKinsey management consultancy in 1977. For the next 17 years he advised financial institutions on their strategic and organisational problems.

In 1994 he was hired as chief executive of Swiss Re, the world's second-biggest reinsurer. Within a year he had sold Swiss Re's direct insurance operations and masterminded a massive re-rating of Swiss Re's shares. Now, less than two years after he arrived at Swiss Re, he has been offered the job of sorting out Credit Suisse.

He is staying on as deputy chairman of Swiss Re but his rapid exit from its executive suite, shortly after its ambitious £1.75bn purchase of a UK reinsurer, has raised concerns that he is abandoning ship.

Credit Suisse has already announced its own big restructuring and a new top management team before Mr Mühlemann has even arrived. The last thing that Credit Suisse needs now is a new chief executive who wants to rethink its corporate strategy yet again. Which raises the question of what is left for Mühlemann to do.



Daniel Zuberbühler, 48, the new director of the Federal Banking Commission in Bern, is one of the world's more unusual bank supervisors. For a start he has a sense of humour and a relaxed dress code - blue jeans and open-necked shirt - which would be frowned upon by the Bank of England or Germany's Bundesbank.

Bearded Mr Zuberbühler cycles to work and could easily be mistaken for an ageing political activist, which he once was, rather than Switzerland's chief bank supervisor. However, his easygoing style is deceptive.

He has been a bank supervisor for 20 years and has done most of the jobs in the Federal Banking Commission. He does not belong to the school of supervisors who believe that every new banking crisis should result in a new regulation. Nevertheless, his regulatory empire is expanding now that responsibility for supervising Switzerland's securities industry is being transferred from the cantons to the federal level.

With a staff of 54, the Federal Banking Commission faces the same problem as other bank supervisors - an increasing workload and limited resources. Mr Zuberbühler appears to relish his role as the man responsible for making sure that Swiss banks behave themselves.

## INTERVIEW Hans Meyer, Swiss National Bank chairman



Hans Meyer: making a more concerted effort than his predecessors to win public support

## Drive to win support for bank's actions

Mr Hans Meyer, 60, who took over as chairman of the Swiss National Bank in May, faces a tough task.

The Swiss economy is locked in its longest period of stagnation since the 1980s; uncertainties over the future of European monetary union threaten further upward pressure on an already over-valued Swiss franc; and the Swiss National Bank is running out of policy options, having recently cut its official discount to a record low of 1 per cent.

However, Mr Meyer, an economist who joined the central bank's three-man governing board in 1985, thrives on the challenge.

Along with the two new members of the policy-making governing board - Mr Bruno Gehrig, 49, a former professor of business administration at St Gallen, and Mr Jean-Pierre Roth, 50, a central bank economist - Mr Meyer is making a more concerted effort than his predecessors to win public support for the central bank's actions.

The Swiss National Bank is much more independent than most central banks. It is not owned by the Swiss government but by a mixture of private investors (37 per cent) and local cantons and cantonal banks.

This has its advantages and disadvantages, especially when it comes to interpreting the central bank's official mandate of time before Mr Meyer and his new team took charge.

This vague wording, contained in the Swiss constitution, leaves the central bank vulnerable to attack when the economy stops growing as it has done since 1990.

Mr Nicolas Hayek, president of SMH, Switzerland's leading watchmaker, has been a vocal critic of the central bank's tight money policies in the past.

He claims that they have exacerbated the strength of the Swiss franc and substantially damaged Switzerland's manufacturing and tourism industries.

Mr Meyer admits that the Swiss economy is in "poor shape". It has the potential to grow at 2 per cent a year, yet has stagnated for the past five years.

However, he prefers to characterise Switzerland's current economic problems as "difficult" rather than "dramatic", and notes that over a 10-year period the economy has grown by an average 1.5 per cent a year; inflation has averaged 3 per cent; and unemployment 2 per cent.

"It is not brilliant but it is not a bad long-term average," says Mr Meyer. Although Switzerland's unemployment rate of 4.6 per cent is higher now than it was in the 1930s, Mr Meyer does not believe that there is any comparison between the severity of Switzerland's current economic problems and those of 60 years ago. Switzerland is a much

wealthier country now and is running a huge balance of payments surplus. If it has a problem, it is in coming to terms with its high standard of living.

Mr Meyer believes that the current recession can be explained by the weak economic condition of Switzerland and its nearest trading partners, the "very pronounced" structural changes in Swiss industry, and the deep-seated problems of the construction, tourism, and agricultural industries which he sums up as the "legacies of the past".

"There is no question that it is going beyond what we have seen in the recent past," says Mr Meyer. But he is still inclined to believe that the current problems are not "fundamentally different" from those which went before.

"Sooner or later growth must come. We have good preconditions; low interest rates and inflation, and a lot of restructuring has been done".

Nevertheless, Mr Meyer's view of Switzerland's medium-term economic recovery prospects - a growth rate of between 1 and 2 per cent - suggests that the country's unemployment rate is unlikely to return to its previous enviable low levels of under 1 per cent.

Against this background, the Swiss National Bank had already been relaxing its monetary policy some time before Mr Meyer and his new team took charge.

Money supply has been growing well above its medium term target of 1 per cent a year. In August, it grew at an annualised 5.7 per cent.

"There is no question that we have become more liberal. We have come to the conclusion that the general economic situation has changed," says Mr Meyer.

Last month's cut in the Swiss discount rate to 1 per cent, was designed to reinforce the central bank's view that the current low level of interest rates will persist "for some time to come".

Having cut interest rates to historically low levels, there is not much more that Mr Meyer can do on this score if the Swiss franc comes under a renewed bout of upward pressure in the foreign exchange markets.

In the short-term, the foreign exchange markets have reacted favourably to Switzerland's more expansionary monetary policy. But the upward pressure could return at any moment if there is the slightest hiccup in the progress towards European monetary union.

Any sudden appreciation in the Swiss currency could postpone yet again the long overdue recovery in the Swiss economy. However, Mr Meyer plays down the threat.

"Keep in mind that we have experienced a strong currency for a very long period of time," he says,

noting that the Swiss franc has appreciated by an average of 1 per cent a year over the past decade. And while discussions over European economic and monetary union have added yet another layer of uncertainty, he stresses that the Swiss franc has always been vulnerable to foreign exchange movements outside Switzerland's control.

In this respect, uncertainties over the progress towards EMU do not pose any markedly different threat to the Swiss currency.

Nevertheless, the Swiss central bank is keenly interested in the longer-term outcome of EMU.

While the foreign exchange markets are focusing on which countries will meet the EMU convergence criteria in the short term, Mr Meyer has a much longer time horizon.

"The big problem is what happens over the next five to 10 years. That is where we have to concentrate our attention," he says.

Could there ever come a time when the Swiss franc would be pegged to the Euro?

Mr Meyer refuses to be drawn on this question, save to say that "one can always adjust to currency inflows if you are convinced that the country in question is following a policy which meets your own convictions".

"Since it is very hard to establish convictions about the future, there is much to be said for our policy of trying to operate a policy of limited independence," says Mr Meyer.

However, he admits that the Swiss National Bank's main concern about EMU is about its impact on the Swiss currency rather than its effects on the competitive position of the big Swiss banks.

"We are in a difficult situation. But it is not desperate," says Mr Meyer. In the 1930s, Switzerland solved its economic problems by devaluing, but this is not an option now because there are no fixed exchange rates. Hence, if Switzerland were to face unexpectedly large, currency inflows which threatened to snuff out the long-delayed economic recovery, it could try and reduce the upward pressure on the exchange rate by following an even more expansionary monetary policy.

However, Mr Meyer cautions that even if there is no risk of inflation round the corner "we have to take a two- to three-year perspective and you cannot totally exclude what happens to the aggregate in the meantime".

This leads to the atypically Swiss conclusion that Swiss National Bank policy over the next few years will be a form of "muddling through". But then that is the essence of the best monetary policy.

William Hall



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Sassicaia 1985, vino da tavola, Tenuta San Guido, Toscana

Côte Rôtie "La Landonne" 1991, E. Guigal, A. C., Côte de Rhône

Riesling 1993, Grand Cru, Domaine Leroy, Côte d'Or

La Tâche 1990, Domaine de la Romanée-Conti, Côte d'Or

Château Pétrus 1990, Grand Cru exceptionnel, Pomerol

Château Haut-Brion 1989, 1<sup>er</sup> Grand Cru Classé, Graves

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FINANCIAL TIMES SURVEY

# MEXICO

## Paying for the peso

Managing the recovery has been complicated by political changes that have huge implications for the way Mexico will be governed in the next century, writes Stephen Fidler

Mexico has cleared up many of the dishes broken after its disastrous devaluation nearly two years ago. Now it must start paying for them. The bill was high. The economy contracted by 7 per cent last year, and will not recover the ground lost until the end of next year at best. Wages will take even longer to recover. In a country where a million new workers a year enter the jobs market, a million jobs were lost. Unofficial estimates suggest open and hidden unemployment may amount to a quarter of the workforce.

An ensuing banking crisis will cost 12 per cent of this year's gross domestic product, according to estimates from the US credit rating agency Standard & Poor's - more than twice the sum received when the banking system was privatised in 1991-92.

Managing the economic recovery has been complicated by political changes occurring both by design and default, that have huge implications for the way Mexico will be governed in the next century. Mexico has the oldest surviving system of one-party rule in the world, and presidents from the ruling Institutional Revolutionary Party (PRI) or its predecessors have run the country since 1929.

Rising urban and rural violence - some politically motivated, some connected to a thriving trade in illegal drugs and some driven by economic hardship and recession - strongly suggests the traditional authoritarian political system is no longer capable of resolving conflicts in Mexican society. Sharply rising violent crime rates have turned personal security into one of the most important preoccupations of city dwellers. In rural areas, the number of traditional conflicts over land and other issues has risen. Meanwhile, the emergence of guerrilla groups for the first time in two decades, often in states where local administration has been corrupt and inadequate, have challenged the government.

Evidence of the institutional failure has come with the growing responsibilities of the military. While there are no signs that the armed forces are seeking an important political role, they now are, among other things, fighting anti-insurgency, involved in the war against drugs and running the customs police and the police force in Mexico City.

Since assuming office in December 1994, President Ernesto Zedillo has promised

to tackle this failure by moving away from the authoritarian political tradition and towards democracy and the rule of law. This would be achieved, he has said, by building a more balanced relationship between the three powers of the state; by settling a reform that would have all the main political parties agreeing on transparent rules for elections; and by decentralising power from Mexico City to state and local governments.

The electoral reform has made progress among political parties, and new federal electoral rules could be finalised shortly. They would then be in place for the mid-term congressional elections next July, when for the first time elections for mayor of Mexico City will be held.

There have also been some signs of a more independent judiciary and legislature. For example, government proposals for the reform of the social security system were altered by Congress, while the government was forced to abandon plans to privatise secondary petrochemicals by opposition from the PRI that would have assured a legislative defeat.

However, there remain limits to the freedom of the legislature. Government pressure, for example, succeeded last month in closing down a congressional corruption investigation into the activities during the previous administration of Comasupo, the state marketing board for staple foods.

One of Mr Zedillo's most important pledges was to extricate the presidency from the internal machinations of the PRI. In doing this, he said he would surrender the traditional power of choosing the party's candidates for high office, including, most important of all, the presidency.

Taking him at his word, the PRI national assembly last month agreed a set of rules for the prequalification of candidates that would have excluded Mr Zedillo himself as well as his three predecessors. The rules mean only Emilio Chuayflet, the interior minister, and Silvia Hernandez, the tourism minister, of the current cabinet are eligible to be the PRI candidate for the presidency in the year 2000.

The assembly was widely characterised as the revenge of party traditionalists against the technocrats, such as Mr Zedillo, who have dominated Mexican governments for two decades. Its decision illustrates a predicament for Mr Zedillo: the



There is trading... and then there is trading. A village market and the stock exchange in the capital city illustrate two of the faces of Mexican business

more he allows power to devolve to others as he has pledged, the more difficult it becomes to guide events in the direction he wishes.

Mr Zedillo's budget stringency and his push for cleaner elections and more transparent party financing has frustrated some in his own party and is regarded by some party loyalists as increasing the PRI's mid-term elections. Moreover, Mr Zedillo, most of his cabinet and his economic policies are associated with the real and perceived failures of the previous administration of President Carlos Salinas.

Mr Salinas, now living in exile in Ireland, is popularly held to have deceived the population with his market reform programme and his successful push to bind the country into the North American Free Trade Agreement with Canada and the US. As such, the Salinas link to so-called neoliberal policies, such as privatisation, has made the pursuit of similar ends by the current government more difficult.

But the Salinas legacy is more complicated than that. Two 1994 assassinations, including that of the PRI's first presidential candidate, Luis Donaldo Colosio, have not been resolved to public satisfaction. And the former president's brother, Raúl Salinas, has been jailed on murder and illicit enrichment charges. He denies charges of the murder in 1994 of the PRI's secretary general José Francisco Ruiz Massieu, and of illegally amassing at least \$120m in foreign bank accounts.

In this complex equation, the element that has moved most rapidly in Mr Zedillo's favour has been the economic recovery. Growth should be close to 4 per cent this year, faster than any forecast suggested a year ago. The government officially expects growth of 4 per cent or more next year, and perhaps 5 per cent the year after.

However, most of the population has yet to feel much benefit. Real wages have started to rise but are unlikely to recover their 1994 level until almost the turn of the century.

It is against this background that government, business and the trade

unions will soon start negotiating the annual *pacto*. With the exchange rate and contractual wage increases now out of the negotiations, only the minimum wage and some public sector prices are included. "Fortunately, every year there is less to agree," says Guillermo Ortiz, finance minister.

The recovery has also been confined to the export sector, which now accounts for well over a quarter of GDP. According to Luis Rubio of the Centre for Development Studies in Mexico City, some 600 companies represent 80 per cent of all Mexican exports. Some 4,000 of the 15,000 exporting companies could be said to be doing well. "The problem of the large majority of businesses is that they don't know what to do or don't know how to do it." They do not even have the discipline of a

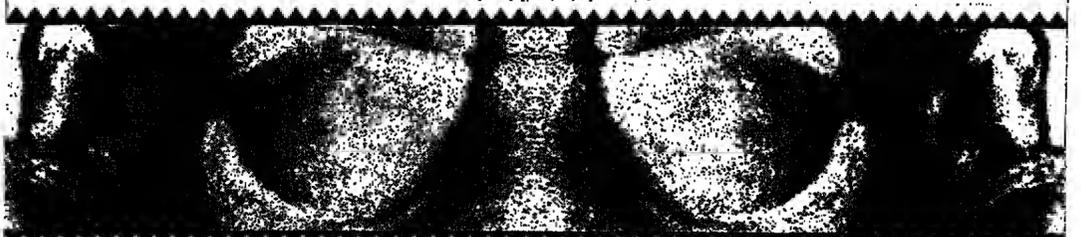
working bankruptcy law. The lack of a large network of functioning middle-sized businesses explains Mexican exporters' heavy dependence on imports. Mexico needs to develop incentives to build an industry to serve exporters and broaden the benefits of export success. It also needs, says Mr Rubio, a renewed emphasis on deregulation.

The underlying message is that some of the structural problems at the root of the financial crisis are still in place. Mexico's current political transformation may make it more difficult to resolve these issues in the near term. Over a longer period, however, it should help. According to Santiago Creel, a member of Mexico's Federal Electoral Institute: "What's needed is a new institutional structure that generates confidence among investors."



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■ **Economy:** by Stephen Fidler

## Fine time for crisis

### The devaluation dilemma: an uncompetitive forex rate vs a consumer boom

If Mexico had to have a financial crisis, it picked its moment well. "With high international liquidity, low US interest rates and US growth, Mexico couldn't have had a financial crisis at a better time," says Rogelio Ramirez de la O, of the Ecanal consultancy in Mexico City. The economy is picking up faster from recession - and the 7 per cent collapse in output last year - than most forecasters expected. Growth should exceed 3.5 per cent this year. Official forecasts suggest it will rise to 4 per

cent or higher next (with inflation of 15 or 16 per cent and a current account deficit of no more than 2 per cent of gross domestic product) and 5 per cent in 1998.

A rise in oil prices has helped the government keep its budget in balance this year in spite of weakening tax revenues. The favourable external environment has made it easier to issue bonds abroad, thereby allowing early repayment of most of the money lent during the 1995 US-led bailout and pushing into the future repayments of debt which otherwise hunched awkwardly from 1997 onwards.

It has also encouraged a sharp rise in exports from Mexico that was further spurred by companies turning away from their

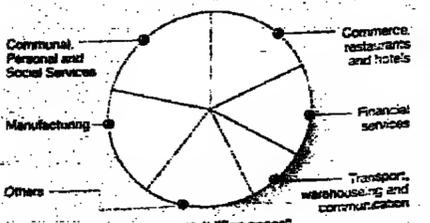
depressed home market to look for markets abroad. Total exports, including those from the country's in-bond maquila assembly plants, now account for between 27 and 29 per cent of gross domestic product, compared with 17 per cent in the first quarter of 1994.

More recently, however, export growth has been slowing and imports rising rapidly - particularly when the maquila industries are excluded - bringing new questions, among other things about the exchange rate, which has been unusually strong. According to Alfredo Thorne of JP Morgan in Mexico City, a pick-up in domestic demand has both encouraged imports and led some exporters to shift their attention back to the domestic market.

This raises a dilemma typical after a devaluation. Should the government encourage continued depreciation, thereby ensuring exports remain competitive, or allow the exchange rate to continue its real appreciation, thereby bearing down harder on inflation?

Some are dubious that the dilemma will be satisfactorily resolved. "We doubt that the country can safely negotiate the path between the Scylla of an uncompetitive

GDP



Continued on page 3

2 MEXICO

Deregulation: Transport, telecoms and the energy sector are lining up

# A Herculean effort required

The country can ill afford some of the highest transport costs on the continent

Since the devaluation of the peso, the highway linking the steel town of Monclova in northern Mexico to San Antonio in Texas has been jammed with convoys of trucks, laden with rolled steel, heading north. The railway line which runs almost parallel to the highway has picked up little of Mexico's booming steel business.

"The steel industry should not be moving exports by truck," says Rafael Fernández-MacGregor of the South Orient Railroad in Texas.

"But the Mexican rail service is so bad, so unreliable, that industry has become disconnected from the rail system."

It can take more than a week for Ferrocarriles Nacionales de México, the state-owned railway corporation, to transport freight from Mexico City to the US border.

The same journey takes 20 hours by truck. In an open economy, increasingly integrated with the US, Mr Fernández-MacGregor believes the Mexican industry can ill afford some of the highest transport costs on the continent.

Agriculture is also affected. More than 400,000 Mexican head of cattle are transported to Texas each year for fattening. Once, the herds were carried by rail. Then railway employees began holding up cattle wagons for days at the border to extort bribes. So the herds now travel by truck.

There are also examples of inefficiencies which seem almost deliberately contrived. The Chihuahua-Pacific railroad, which begins in the outpost of Ojinaga on the Texan border, ends just a few hundred metres short of the port of Topolobampo on the Pacific coast.

"Why didn't they build the railway right up to the port?" Mr Fernández-MacGregor asks. "So that some businessman with a few trucks and the right political connections could overcharge you to carry freight from the trains to the ships."

All this could be about to change. Government officials hope the privatisation of Ferrocarriles Nacionales, which began this year, will usher a new era in rail transport that brings about dramatic savings in Mexico's transport costs.

Jorge Silberstein, privatisation chief at the transport and telecommunications ministry, says Mexico's railways carry less than 13 per cent of overland freight. There is thus substantial potential in the business of transporting Mexico's \$100bn

two-way trade with the US, 80 per cent of which is carried overland.

So far, the government has put two networks out to tender. One is the scenic Chihuahua-Pacific route, which runs through the spectacular Copper Canyon. The other is the busy North-Eastern line, almost 4,000km long, which links the towns of Nuevo Laredo and Matamoros on the US border to Mexico

## US rail companies see the sale as an opportunity to extend their hinterland

City, and the capital to the ports of Veracruz on the Gulf coast and Lázaro Cárdenas on the Pacific.

The privatisation has attracted keen interest from US railway companies, which see the sale as a unique opportunity to extend their hinterland into Mexico. "The rail haulage business is only profitable over long distances," Mr Fernández-MacGregor explains. "That is why the Mexican privatisation is a key happening in the continental rail business in North America."

Mr Fernández-MacGregor's South Orient Railroad, in

association with Grupo Mexico, the mining group, has put in a bid for the Chihuahua-Pacific railway. Two other bidders dropped out this month.

Mr Fernández-MacGregor says there is economic potential in the Chihuahua-Pacific route, particularly in the transport of agricultural produce from the northern state of Sinaloa to the US. "We have conducted test runs with refrigerated containers from Sinaloa to Chicago, and we proved we could do it in two and a half days, and 20 per cent below the cost of carrying it by road," he says.

The North-Eastern line, which carries 60 per cent of Mexico's rail freight, is expected to attract far more bidders.

Juan Manuel Carreón, the Mexican representative of Southern Pacific Railways, with a \$250m business in Mexico, says: "We would like to handle freight from the US into Mexico in a smooth single line."

Southern Pacific, which is being merged with Union Pacific in the US, is likely to be competing for Mexico's North-Eastern line against Burlington Northern-Santa Fe, Railtex and Kansas City-Southern.

The bidders say Mexico's railroads don't require much new investment. They just need to be run better.

This new concession holders will be handed networks

that have been "cleaned" of debt and surplus workers. Mr Silberstein says the government will continue to pay the pensions of Mexico's 50,000 retired railway workers, but a question mark hangs over the future of Ferrocarriles Nacionales' 50,000 employees.

"We are talking to the unions about job cuts," Mr Silberstein says. After the railway privatisation, the spotlight is likely to return to road transport and the maze of regulations which make it so costly and inefficient to transport goods within Mexico.

"We still do not have a fully liberalised economy," says Luis Rubio, director of CIDAG, the Centre for Development Studies, in Mexico City. "It is still cheaper to move cargo from Mexico City to Chicago than from Guadalajara to Tabasco." This reason, he says, is that national freight companies are not allowed to deliver cargo within city limits.

Instead, they must subcontract smaller transport companies which are licensed to operate within city limits. This cumbersome process tends to inflate freight charges, raise the final cost of transported goods, and make the economy - as a whole - less competitive.

Apart from streamlining regulations, President Ernesto Zedillo's government also plans to revive the private-sector road building



Cars queue at Juárez checkpoint to the US. Roads are feeling the pressure of rail's inefficiencies

programs under a new scheme which promises to make toll roads profitable. The plan, which is expected to include access to long-term government finance, will be unveiled before the end of the year.

Nobody in Mexico wants a repeat of the toll road fiasco of the early 1990s, when construction was financed with expensive, short-term credit, and lower-than-expected traffic drove most toll operators insolvent. Salvaging the toll-

road business has required costly government subsidies and the rescheduling of more than \$4bn of loans - a complicated exercise, which is expected to cost the government more than 14bn pesos (\$1.86bn), or 0.6 per cent of GDP, in debt write-offs and interest rate subsidies next year.

Mr Silberstein says the government also plans to begin the process of privatising Mexico's airports before the end of 1996. The first air-

port to be put to tender is likely to be Puerto Vallarta, a holiday resort on the Pacific Coast.

Leslie Crawford

# Winds of change snuff old problems

Rivals battle for a share of the growing market in telecoms

Traditionally, telecommunications in Mexico have been just another of the country's problems. Well into the 1990s, lines took years to install, billing was incompetent, and connections in even Mexico City's central exchange were still made with 1930s technology.

However, the sector has been transformed this decade. After privatisation in 1991, the old state telecommunications utility, Teléfonos de México (Telcel), became one of the most traded companies on Wall Street, keeping its long-distance monopoly, regularly recording operating margins of 40 per cent - until the 1994 peso devaluation - and investing much of the proceeds in improved infrastructure.

Now the sector is feeling the winds of another change. Full competition in long-distance services is scheduled to begin next year, and some of the world's leading companies are jostling for position.

Most users will be able to take advantage of new companies' services after 1 January next year, when Telcel begins to connect its rivals' long distance networks to its own exchanges, and hence to ordinary phones. Already the company has lowered its prices in expectation of brisk competition, and an expensive advertising war by two of its future competitors has acquainted customers throughout the country with what is in store.

One prospective rival, Avantel, is a joint venture between MCI Corp and Bantex, Mexico's biggest bank. The other, Alastra, links AT&T with Mexican conglomerates Grupo Alfa and

Grupo Visa. Both companies have already ploughed hundreds of millions of dollars into fibre optic networks for long distance calls. Each promises to invest a total of \$1bn by the end of the decade. The investments are spurred on by two key considerations: the volume of calls between the US and Mexico is greater than traffic between any other two countries save Canada and the US; and the Mexican long-distance market is widely predicted to grow by some 20 per cent a year in the near future.

A handful of smaller companies are snapping at the

**Telmex has got ahead in the race with an \$11bn investment over the last six years**

bigger players' heels, ready to fill whatever niches are left.

For its part, Telmex has invested \$11bn over the last six years. Among the results are a modern centre that monitors and corrects most of the line faults in Mexico City, and provides services like call-waiting and high speed data lines.

"No-one will be able to duplicate the infrastructure that Telmex has built up," says Carlos Casasús, president of Mexico's Federal Telecommunication's Commission, the regulatory body for the sector.

Though the old monopoly carrier will remain strong, the battle for market share is likely to be furious. The competitors reckon on winning 10 to 15 per cent of the \$3bn long-distance market between them during the

first full year of competition, perhaps pushing the figure up to 40 per cent by the year 2000.

The pace of liberalisation, however, will be deliberately slow, to aid the stability of the market. The worldwide experience of new entrants like AT&T and MCI and the fact that the devaluation has already brought rates down in real terms should also make the liberalised sector less prone to price wars than it otherwise would be.

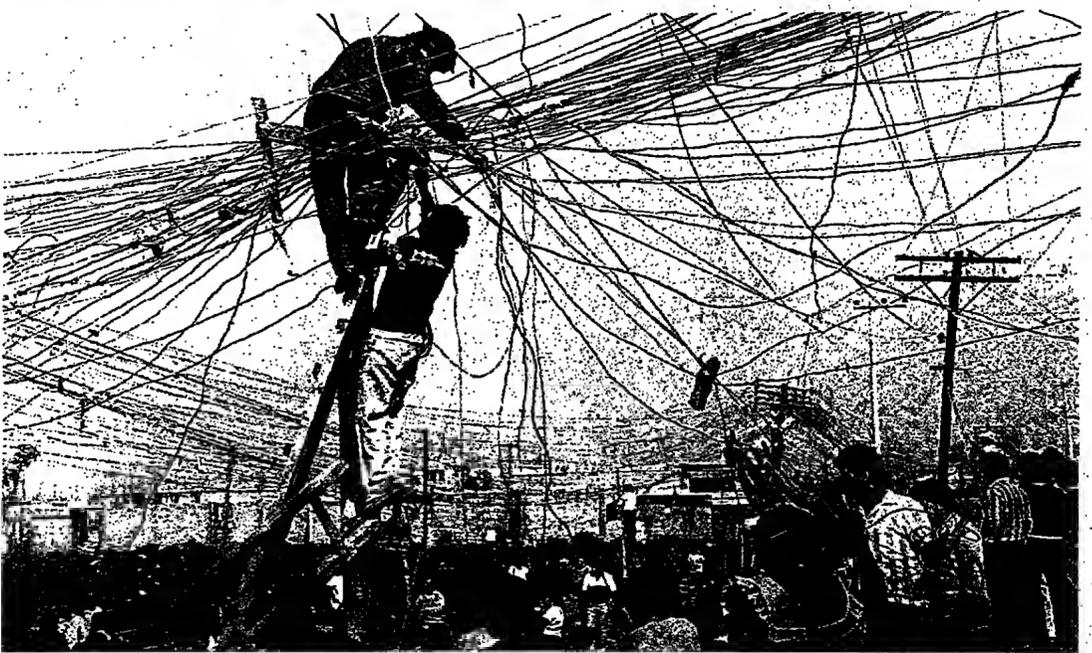
Telmex managers hope a growing market will compensate when, as is inevitable, they see a fall in long distance market share; and that increasing revenue from local calls will make up the balance. Local rates are being slowly brought up to market levels. However, the rates remain too low to attract any competitors to the business, and over the next two years will be subsidised by high fees paid to Telmex to connect its rivals to its own network.

Mr Casasús argues that new companies will nevertheless soon enter the market for local service, as the use of new technologies brings down the cost of the necessary infrastructure. Auctions will be held next year for the use of parts of the radio-electric spectrum for wireless telecommunications.

The cellular market, currently a duopoly dominated by Telmex's subsidiary Telcel, may also become more disputed once the spectrum concessions are granted.

So far, the liberalisation of the long-distance sector has proceeded well by any standards. The proof of success, however, will come next year - when the future shape of the local and cellular markets should also become more clear.

Daniel Dombey



Mexico's heavily-subsidised electricity tariffs are still not cheap enough for slum-dwellers: in Valle de Chalco, stealing power from the main lines is big business. Picture Universal

# Oil remains a slippery issue

The jewel stays firmly in the state's crown as the energy sector opens out

The good news is that Mexico's energy sector is being deregulated.

The bad news is that Petróleos Mexicanos (Pemex), the state oil monopoly and one of the world's biggest oil companies, is not for sale.

The country's oil and natural gas resources were nationalised in 1938. Pemex has since become such an icon of Mexico's national identity that few politicians, in government or opposition, have dared challenge its state ownership.

Attempts to hive-off "non-core businesses" such as petrochemicals have defeated two presidents, including Ernesto Zedillo, who appears inclined to forget about the sale in view of the antagonism it has generated within the ruling party.

The government, however, realises that Pemex's limited development of the gas industry is holding back the energy sector as a whole. Attempts to get private-sector companies to build and operate electricity plants, such as the 440MW Merida III power project in the Yucatán peninsula, have foundered on Pemex's foot-dragging over the construction of a gas pipeline to the plant.

More than half of the country's electricity is generated from fuel oil today, but environment regulations that take effect in 1998 should increase the use of natural gas.

Early in President Zedillo's

administration, new legislation was approved to allow the private sector to transport and distribute natural gas and build new pipelines to feed power plants. The extraction of natural gas remains a preserve of the state, although government officials are already searching for ways of bending the rules to allow private sector exploration contracts on the mainland.

The first concession, to distribute natural gas in Mexicali, a town on the US border, was granted in August this year. The government hopes \$3.5bn of private investment in gas transport and distribution will follow over the next five years.

Héctor Olea, chairman of the Energy Regulatory Commission, says the second concession, for the northern city of Chihuahua, will be awarded in the next six months.

Thereafter, concessions will be auctioned off at the rate of one a month.

Once the gas distribution business is settled, Mr Olea plans to tackle the deregulation of the electricity sector, which will include Mexico's first-ever attempt to establish a rational framework for electricity tariffs.

In a recent report, the OECD's International Energy Agency urged Mexico to speed up work on a regulatory framework for the electricity sector.

"Mexico's ability to attract large-scale IPP (Independent Power Producer) and co-generation investment, most of which would use natural gas, is contingent on higher electricity prices, a secure regulatory framework and a significant increase in

hydro-carbon production by cash-short Pemex," the report said.

Energy ministry officials estimate Mexico needs to invest between \$9bn and \$11bn in electricity generation over the next six years to keep pace with demand, which is growing at 5 per cent a year.

The government has revived a plan to attract private investment, inviting bids for the construction of six power plants.

Potential investors, however, are concerned about Mexico's heavily-subsidised electricity tariffs, which would make any investment in the energy sector unprofitable without a sharp adjustment in energy prices. The cost of electricity in Mexico is only a fraction of that in the US.

There are no plans to create a free market in electricity, as private sector producers would still be required to sell all their production to the Federal Electricity Commission (CFE), which runs the national grid. And Mr Olea's Energy Regulatory Commission has yet to work out pricing policies that would guarantee private investors an attractive return on electricity investments.

In the meantime, the CFE says it will negotiate purchase prices with each independent power producer.

Chile, which privatised its electricity sector in the 1980s, has an independent regulatory authority which adjusts tariffs every year based on models which calculate profit margins for a theoretically efficient power producer.

No such model exists in Mexico. Instead, tariffs are

set by the finance ministry without much consideration to the costs of production. Energy analysts estimate that the current price of electricity in Mexico does not even cover the CFE's operating costs, let alone depreciation and new investment.

A milestone of sorts, however, was set earlier this year when \$600m of government and private financing was raised for Salamayuca II, a 700MW gas-fired electricity plant which will be built a few kilometres south of the border from El Paso, Texas.

Salamayuca II is the first power project in Mexico to be built with private capital, but the latter will only be available for the duration of

the construction phase, which is expected to end in 1998. These relatively short-term credits have led energy analysts to question Mexico's ability to raise long-term private finance to match the 20-year lifespan of a typical power plant.

Salamayuca II is a joint venture between General Electric, Bechtel Enterprises, El Paso Energy International and Grupo ICA, Mexico's largest construction group. Mexico's Federal Electricity Commission will lease the plant for 20 years once it is completed in 1998.

Leslie Crawford and Daniel Dombey

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Banking: by Stephen Fidler

# More time and money needed

### Full recovery likely to be an 'extended and painful' process

Mexico's banking crisis immeasurably worsened the economic mess that followed the December 1994 devaluation of the peso.

According to the US credit rating agency, Standard & Poor's, the bail-out of Mexico's banking system will cost 12 per cent of 1996 gross domestic product, more than twice the amount received when the banks were privatised in 1991-92.

This compares with estimated losses of 3 per cent of GDP to taxpayers in the US savings and loan crisis; 6.4 per cent in the Swedish banking crisis; 15 per cent in Venezuela's 1994-95 crisis; and as much as 30 per cent for the Chilean crisis of the early 1980s.

The US bank, JP Morgan, has estimated non-performing loans in the banking system to be some 35 per cent of total loans, though some estimates suggest this could be as high as 50 per cent.

To tackle the crisis, there have already been 10 special programmes and measures aimed at helping either banks or debtors out of trouble. This ad hoc approach has brought criticism that the bailout could have been handled more cheaply and transparently, and may in some cases have set up per-

verse incentives for debtors. But few disagree with the US credit rating agency's view that a full recovery for the system will be an "extended and painful process" that is far from over.

Ednardo Fernández, Mexico's chief bank supervisor, said programmes to help out banks and debtors have contributed to a perception that the risks of a banking crisis have receded.

"The capital of the banks has increased, as have provisions for doubtful debts. These advances have been very important," he said.

"However, a definitive solution will take time and money. There are no immediate answers and we're going to persevere with the programme."

The banks' problems had begun to emerge even before the December 1994 devaluation brought about a disastrous jump in interest rates and a deep recession which devastated balance sheets.

They followed an explosion of bank credit in the early 1990s, which began even before privatisation in 1991-92. Total credit of the banking system to the private sector grew from 13 per cent of GDP in 1988 to 36 per cent in 1994.

Banks, which had mainly operated as channels of credit to the government, were inexperienced in lending and lacked the technology to control the loans. Over-optimism about Mexico's economic prospects was rife. Some banks were being operated fraudulently. To cap it all, oversight by banking regulators was hopelessly inadequate.

The rapid growth of consumer and mortgage credit also meant many more individuals were hurt by high interest rates than had been the case during previous recessions. One effect of this has been the emergence of a vociferous pressure group, called *El Barón* (the Yoke), which organised street demonstrations aimed at banks and at securing concessions for individual debtors.

Now the government owns some 200bn pesos (\$26bn) in nominal value of bank assets, a fifth of all Mexican banking assets. The National Banking Commission plans to start auctioning some of these assets this year.

The crisis has also resulted in substantial foreign ownership of the Mexican banking system, barred at the time of privatisation. The commission estimates that 15 per cent of the system could be in foreign hands by the end of 1997, which could eventually increase to 25 per cent.

Some forecast an even higher figure. "I would not be surprised if foreign banks owned 50 per cent of the Mexican banking system in about five years," said Ricardo Guajardo, chief executive of Bancomer, Mexico's second largest bank, in a July interview.

Bank of Nova Scotia has taken management control of Inverlat, the fifth-largest bank. Spain's Banco Bilbao Vizcaya took control of the branch networks of Oriente and Creml and a majority interest in Probusa, Bank of Montreal has taken a minority stake in Bancomer, the second-largest. Serfin, the third largest and most problematic of the big three, and Mexicano are also seeking foreign partners.

Even the largest bank, Banamex, would consider a foreign partner. According to Roberto Hernández, its chairman: "We are not closed to the idea of having partners." Since the bank is unlikely to need a further injection of capital from shareholders, he added: "We'd be interested only in a strategic partner. I don't think it would be strategic to take a partner just because it wanted to put up a few hundred million dollars into the bank."

per cent of GDP, a big part of which was being financed by overnight money. This is not the case any more," says Francisco Gil, vice-governor of the Bank of Mexico.

"We have now a freely floating exchange rate and floating interest rates. No other country has a set-up like ours. They are like two hells moving at the same time: interest rates and exchange rates."

"Nobody is providing any guarantees on interest rate or exchange rates. That's much more effective in preventing large inflows of hot money," says Mr Gil.

Indeed, there has been no large build-up in holdings by foreigners of Mexican government fixed income securities. Net foreign positions have not exceeded \$1bn, the central bank says, although there is some evidence of modest increases of foreign deposits in Mexican banks, according to bankers.

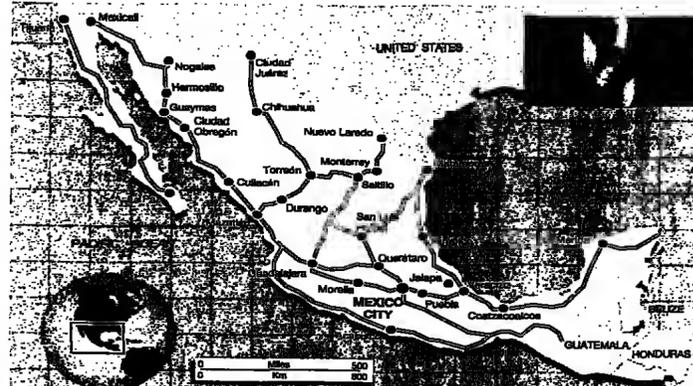
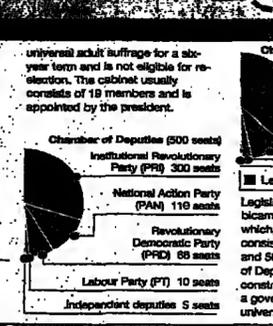
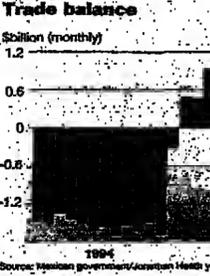
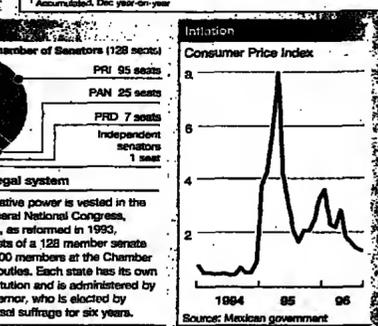


Table with 2 columns: City, Population (1995 estimate)

Government and constitution. Mexico is a federal republic of 31 states and one federal district. Executive power rests with the president, who is elected by universal adult suffrage for a six-year term and is not eligible for re-election.



Economic Summary table with columns for 1994 and 1995. Rows include Total GDP, Real GDP growth, GDP per head, Consumer price inflation, Producer price inflation, Foreign debt, Debt service, Unemployment, International reserves, Exports, Imports, Balance of trade, Current account.



## A fine time for a crisis

Continued from page 1

exchange rate and the Charlydis of a consumer boom," says Roger Nightingale of the London-based brokers, Latinvest. The dilemma, however, will not fully emerge until the middle of next year, he says.

Some observers believe that the monetary authorities are pursuing a strong exchange rate policy. While it has not happened yet, the peso, by some calculations, is on the brink of becoming overvalued.

This has brought sharp criticism from, among others, Rüdiger Dornbusch, professor of economics at Massachusetts Institute of Technology, who suggests that, by encouraging an overvalued peso, the central bank is making similar sorts of mistakes to those that preceded the 1994 devaluation. "They



Roberto Hernández of Banamex



Adolfo Lagos of Banco Serfin



Ricardo Guajardo of Bancomer

are doing exactly what they were doing last time, but they are in nowhere near as deep." He argues the bank should be encouraging a guided depreciation of the peso.

Mr Dornbusch says that it is the central bank's very restrictive policy to limit the growth of the monetary base that has been keeping the peso so strong. But the central bank says the comparison with 1994 is mistaken.

"People had lots of reasons to be concerned about 1994: a current account deficit of 7

per cent of GDP, a big part of which was being financed by overnight money. This is not the case any more," says Francisco Gil, vice-governor of the Bank of Mexico.

"We have now a freely floating exchange rate and floating interest rates. No other country has a set-up like ours. They are like two hells moving at the same time: interest rates and exchange rates."

"Nobody is providing any guarantees on interest rate or exchange rates. That's much more effective in preventing large inflows of hot money," says Mr Gil.

"There is a structural problem: on the imports side you have high income elasticity and low price elasticity," says Mr Heath. "Part of this is the high import content of exports, and exports are doing well. But as soon as you start to have a recovery in the domestic economy, it sucks in imports. Even a strong devaluation of the currency won't discourage imports much because of the low price elasticity. What this means is that we could depreciate the currency next year by 30 per cent and still have a trade deficit." Furthermore, he says, the government is moving slowly on the changes needed to correct this over the medium term.

There have been some advances, however. While cancellation of the privatisation plans for the petrochemicals industry was a setback, privatisation of the railways could have important effects on the inefficient transport sector. Removing the telephone monopoly also represents an advance, as does the pension fund reform which goes into effect next year, and should help raise an inadequate savings rate. Officials expect the system to accumulate some \$3.5bn in its first year of operation in 1997. The initial effect, however, will be to increase government spending. Finance minister Guillermo Ortiz estimates the cost of the reform to next year's budget to be 1.2 per cent of GDP, two-thirds of which will be accounted for by the social security reforms and the rest by the parallel health reform.

## Forex volumes soar

The speed with which the system emerges from its troubles will depend crucially on economic growth and the path of interest rates. "The only definitive answer to the banking crisis is to have economic growth for several years," said Adolfo Lagos, chief executive officer of Banco Serfin.

Yet the preoccupation of banks with building capital means that they themselves will only cautiously begin to extend new credit, thereby contributing to that growth. Longer term, one important development will be the establishment of a new insurance system for small depositors. Among other things, this would be aimed at removing the safety net from all depositors. It would help resolve the moral hazard problem, where big depositors seek the highest returns available in the

banking system, regardless of credit risk, because they know they will be bailed out in case of a bank collapse. However, the move to deposit insurance will not be made immediately. "We want to make sure we'll have a soft landing. We are not questioning the need to do it; we'll do it. It's a matter of timing," Mr Fernández said.

The mistakes that have led to the banking collapse have been costly. But according to Standard & Poor's, if they lead to the development of a healthy banking system that can efficiently channel savings into productive investments, the banking crisis may have beneficial effects. "Over the long run, a moribund, inefficient banking system is more costly than 12 per cent of a nation's GDP," it argued in a report published in August.

One unexpected consequence of the December 1994 devaluation of the Mexican peso has been a rapid rise in foreign exchange trading volumes. Trading has been encouraged by the development of futures and forwards markets in the peso, previously prohibited by the Bank of Mexico, and the switch to a fully floating exchange rate from a pegged currency regime.

According to Francisco Gil, vice-governor of the Bank of Mexico, gross trading volumes in the peso are now regularly \$4bn-\$7bn daily. "We have been surprised," he says. "That's the number you see for Canada."

The figure does not include the \$300m-\$400m daily of transactions in the overnight market. Volume used to be so low that the International Monetary Fund in its 1995 report on International Capital Markets remarked on it. One bank - Banamex - had around 30 per cent of the market, while Bancomer and Serfin had 10 per cent each and Nafinsa, the government development bank, an important share.

"Since the market is concentrated in the hands of a few large participants, volume is more than proportionately lower than in US-based dollar markets," the IMF report said at that time. Not any more, it seems.

Stephen Fidler

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Politics: by Leslie Crawford

# The new freedoms still sit uneasily

As the way ahead loses clarity, the ruling party has revolted against its technocrats

Mexico is in the throes of tumultuous political change. The old Mexico appeared to be a bedrock of stability, in which the dominant Institutional Revolutionary Party was skilled at reconciling interests and co-opting dissent. The new Mexico is a more confusing place: the old certainties are gone, and newly-won freedoms - fairer elections, a more vocal press - co-exist uneasily with vestiges of the authoritarian past.

Since January 1994, the month Mexico joined the North American Free Trade Agreement, the country has been convulsed by two guerrilla uprisings, political assassinations, a traumatic devaluation and a difficult presidential handover. Frustration with the ruling party, which has governed since 1929, is running so high that 32 per cent of respondents to a recent poll in Mexico's three biggest cities said they approved the use of violence to force political change.

The PRI lost 3m votes in the recessionary aftermath of the peso crisis. It remains a formidable electoral machine, even though the rift between hardliners and technocrats has become more evident since the country's economic debacle.

The conservative National Action Party (PAN) made huge strides during the recession, capturing three of the four state governorships it contested and 219 cities, home to almost one-third of Mexico's 91m people. Yet even Felipe Calderón, the party leader, admits the PAN needs better policies to overtake the PRI.

"We are regarded as the best political party, but not yet as the best option of government," he says.

The third player on the national arena, the left-wing Revolutionary Democratic Party (PRD), has held on to 15 to 20 per cent of the vote despite its internal divisions. Its importance as a loyal opposition party may grow as the government seeks to neutralise a host of radical urban and peasant organisations which have become more restless since the onset of the recession. Government officials believe these radical groups may be supporting Mexico's newest insurgents, the Popular Revolutionary Army (EPR).

Little is publicly known about the EPR. In a series of co-ordinated attacks in August, the guerrillas displayed their ability to strike simultaneously across one-third of Mexico's territory. The group, however, has failed to capture the moral high ground of the Zapatista peasant uprising in Chiapas, and government officials believe they can sap the guerrillas' strength by paying more attention to the country's marginalised communities.

Neither the guerrillas, nor the forthcoming mid-term elections in 1997 bled the attention of the PRI's national assembly in September, the most significant gathering of party faithful since 1990. Instead, delegates sought refuge in nostalgia and revenge. "Revolutionary nationalism" replaced "social liberalism" as the party's guiding economic principle. The assembly voted to oppose the privatisation of the petrochemicals industry - the aim of two successive PRI administrations. And in a devastating blow to the technocrats who have held the reins of power for the past 15 years, the rank-and-file decided that their next presidential candidate (and future gubernatorial candidates) will need to have held previous elected office and have been a card-carrying member of the PRI for 10 years in order to qualify for the nomination.

President Ernesto Zedillo and his four predecessors, culled from the senior ranks of the government administration, would not have attained Mexico's highest political office under the new rules.

The new rules prevent the PRI from enlisting sympathetic businessmen as election candidates, a strategy successfully pursued by the PAN. They also came as a shock to President Zedillo's cabinet ministers, most of whom will have to resign their posts and contest an election if they entertain ambitions of becoming a "presidenciable".

"The PRI made a big mistake at its national assembly," says a senior government official. "It is closing in on itself, when what the country needs is a more open, more inclusive party."

"The new rules have transformed the PRI into a hunker," says Guillermo Valdes, a political analyst at GEA consultants in Mexico City. The convention, he says, crystallised the rift between PRI "dinosaurs", who resent their loss of influence over a succession of governments preoccupied with economic transformation, and technocrats who disdain the party machine which voted them into power.

The dinosaurs, however, could be about to stage a political comeback if President Zedillo declines, as he has already indicated, to appoint his successor.

"Lobbying for the presidential succession has already begun," says Mr Valdes. Rivals will seek to position as many supporters as possible in next year's congressional elections. They will also jockey for influence within the PRI's National Political Council, a 300-member politburo which will elect the party's presidential candidate in the year 2000.

As the incentives to remain loyal to President Zedillo diminish, ruling Mexico will become a more



A mural detail from 'Fortism to the Revolution', by David Siqueiros, in the National Museum of History, Mexico City

difficult affair. Presidential advisers concede that from now on, Mr Zedillo will have to pay more attention to his own political base, and spend more time lobbying through Congress.

No amount of lobbying, however, can conceal the fact that the president has fewer resources to keep his fractious party in check. The size of the public sector, carved up under the traditional PRI patronage system, has shrunk from 42 per cent of gross domestic product in 1980 to less than 25 per cent of the economy today.

Ironically, the PRI has not yet focused on the need to bolster its electoral appeal to compensate for the diminishing returns in the state patronage system.

Opinion polls show the PRI will almost certainly lose next year's mayoral race in Mexico City to the PAN. The ruling party could also forfeit its absolute majority in Congress. But at its national gathering in September, there was little debate over how the PRI will face the challenges of the country's nearly completed electoral reforms.

Santiago Creel, a lawyer who has fought for electoral reform as a councillor of the

Federal Electoral Institute, says: "The PRI fears political competition. It does not want a free market in political choice. If it did, we would have a very different country today."

Constitutional reforms in July, which President Zedillo counts as one of his most proud achievements, are intended to pave the way for fairer elections next year. Agreement is still pending, however, on the financing of political parties, and regulations to monitor how political funds are spent.

The PRI needs to replace its covert government transfers with legitimate sources of income, so it is lobbying for the government to finance 90 per cent of all party spending. The PAN wants to limit government funding to 50 per cent of the total. The PRD is poorer than the PAN and therefore sides with the PRI on this issue.

Controversy over the PRI's apparently unlimited resources achieved the dimensions of a national scandal this year in Tabasco, where the PRI was accused by the PRD of spending more than \$70m to secure the election of the state governor. In July, shortly after President Zedillo visited Tabasco, a local prosecutor cleared the PRI of any wrongdoing. Few Mexicans failed to link the two events.

Mr Zedillo pledged from the day he took office that he would not abuse the powers of the presidency. But in Tabasco and in other regional conflicts, it has not always been possible for Mr Zedillo to maintain his hands-off approach. Many Mexicans would rather see their president marshal the considerable authority at his disposal to speed the political transition.

"To generate investment and jobs," Mr Creel warns, "we need a new institutional arrangement that is capable of inspiring confidence and political stability. It will be difficult to continue perfecting the economic system without progress in political reforms."

The regions: by Leslie Crawford

# Feast and famine under one regime

The lessons from La Provincia are uneven, and the developmental gap has widened

"La Provincia", as anywhere outside Mexico City is known, is rebelling against centuries of centralised control. Mexico's 31 states are demanding a greater share of the fiscal pie and less government meddling in their local affairs.

Some of President Ernesto Zedillo's worst political headaches have come from the provinces - from guerrilla uprisings in Chiapas and Guerrero, to electoral fraud in Puebla and Tabasco - but they have also delivered some of the best lessons in economic survival during the country's financial crisis.

By Mr Zedillo's own admission, the centralism Mexico inherited from its colonial masters has been "oppressive and retrograde, a concentrator of wealth and resources, insensitive and inefficient". It has failed to do what centralised governments ought to do: redistribute resources from the wealthiest regions to the poorest ones.

As a result, the development gap between Mexico's industrial north and indigenous south has become huge. According to a study by the Technological Institute of Monterrey, average labour wages in the northern state of Nuevo León are three times higher than in Chiapas, a state which borders Guatemala. Per capita consumption in Baja California, another northern state, is five times higher than in Oaxaca, 3,000km further south.

In Mexico's misery belt - the southern states of Chiapas, Oaxaca and Guerrero - one-quarter of the population is illiterate, compared to less than 6 per cent of the population of the states on the US border.

It is therefore not surprising that the rebellion against central government should have begun in Chiapas, on January 1, 1994, the day Mexico joined the North American Free Trade Agreement. It was spearheaded by Maya Indians demanding autonomy, land reform and an end to human rights abuses. More recently, a second guerrilla movement has emerged in the hills of Oaxaca and Guerrero. The leaders of the Popular Revolutionary Army (EPR), according to the government, are disaffected urban Marxists, but there is evidence of sympathy. If not open support, for the guerrillas in the Sierra Madre.

Bad government, particularly by state governors who have ruled their backward fiefdoms like autocrats, is perhaps the main cause for the anarchy which has

begun to encroach on Mexico's prosperous centre. For while the Zapatista guerrillas were never able to break out of Chiapas, the EPR has demonstrated its ability to stage hit-and-run strikes across large swathes of Mexican territory.

The guerrilla threat, and political instability caused by electoral fraud, poses a dilemma for the president: how can he decentralise government while at the same time force his most retrograde governors to accept greater local democracy?

Mr Zedillo, by common consent, has been studiously respectful of local political affairs, even when atrocious crimes, such as the massacre of peasants by police in Guerrero last year, cried out for presidential intervention.

His reluctance to intervene in electoral politics has also resulted in miscarriages of justice. In the oil-rich

state of Tabasco, for example, Roberto Madrazo, the PRI governor, was confirmed in his post despite evidence brought by the opposition that he spent \$70m, or 60 times the legal limit, to secure his election victory.

Nevertheless, some regional governments have learned to flourish under President Zedillo's non-interventionist rule.

"Now that the president no longer tells the provinces what to do, clear-minded governors are pressing ahead with deregulation and the modernisation of their economies," says Luis Rubio, director of CIDAG, the Centre for Development Studies, in Mexico City. "Old-fashioned governors are having a far more difficult time because they no longer have central directives to follow."

Small states such as Aguascalientes, Guanajuato and San Luis Potosí in central Mexico, as well as the northern states of Sinaloa and Baja California, are earning reputations as havens of good government, and therefore magnets for foreign investment.

Aguascalientes, with a population of 862,335, has attracted 151 new corporations in the past four years, creating 23,000 new jobs. Its exports have increased from \$348m in 1992 to \$1,989m in 1995. The state investment board regularly scans the Internet for export opportunities, and sends local businessmen on foreign trade missions. Aguascalientes' secondary schools have been equipped with computers,

Some small states have reputations as havens of good government

while the government is working with the business community to develop industrial training colleges.

When Yamakawa, a subsidiary of the carmaker Nissan, decided to locate in Aguascalientes, the state built a new industrial park for the Japanese newcomer in 56 days.

"Foreigners bring technology, they create jobs, pay taxes and are helping to change our business culture," says Otto Granados, the 39-year-old PRI governor of Aguascalientes. "This matchmaking has been very productive for our local businessmen."

He says Mr Zedillo's early decentralisation measures have allowed state governments more discretion over where public funds are spent, even though the recession has led to a sharp drop in overall government spending. Beginning in 1997, however, the responsibility for the collection of sales and income taxes will devolve to state governments. The better they fare, the bigger the bonus they will get from central government.

La Provincia is also where the opposition National Action Party (PAN) is building experience in government, and from where it may launch its bid for the presidency in the year 2000.

Baja California elected Mexico's first opposition governor, Ernesto Ruffo, in 1995. Since then, the PAN has won the governorships of Chihuahua, Guanajuato and Jalisco. Mexico's second most-populous state, as well as the mayors of 219 cities. The party has earned a reputation for combating corruption and nepotism, and making local government more people-friendly.

In Guanajuato, the PAN has one of its strongest advocates in Vicente Fox, a former Mexican president of Coca-Cola, who plays as well on the national stage as he does locally. Mr Fox is not afraid of breaking taboos, and recently told investors in New York he was in favour of privatising Pemex, the state oil monopoly. Already, he is being touted as the PAN's best chance for the next presidential race.

The lessons from La Provincia, however, have been uneven, and many Mexicans fear the forces which will widen the rift between the country's rich, export-oriented north and the less developed south.

Mr Rubio says: "In 30 years' time, perhaps, when the economies of Nuevo León and other border states are fully integrated into the US and their economic reorientation is complete, I would not be surprised if proposals for secession would emerge."

"What happens to Quebec," he adds, "will be critical to Mexico's future."

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Doing business: by Daniel Dornbey

# A tough culture shock

Bureaucracy is a fine art - and the pen-pushing brigade resist efforts to change

There is a simple lesson learned by all companies setting up in Mexico: regulations are more extensive and less clear than foreigners expect.

"You need extra staff and extra time to do even simple, everyday things. I need 30 per cent more accountants and 60 per cent more lawyers on staff than I would do in the US or the UK," says Michael Mucci, the head of BIP Plastics, a manufacturing company owned by the UK firm BIP Group Ltd.

Recently Mr Mucci had to carry out four separate environmental tests for local, state and federal authorities, none of which accepted the others' findings. "You cannot quantify regulatory problems. You cannot say they take 3 or 5 per cent off the bottom line. But they are a real cost," he says.

Awareness of such problems comes painfully to companies new to Mexico. The culture shock can be especially hard because Mexico often provides businesses' first taste of operations in a foreign country.

To start up operations in the Mexico City area takes 90 working days because of registration with different government agencies, esti-

mates Mariana Prado, Director of Investment and Foreign Trade at the city's American Chamber. "A lot of the time companies come here after a year of feasibility studies and want to start up in two months," she says. "That is just not possible."

Several pressure groups are dedicated to keeping key regulations on the books.

Mr Mucci, who has 150 employees working for him, says he would like to hire part-time staff but cannot because of restrictions imposed by Mexico's federal labour law on part-time jobs. The law has been vigorously protected from reform by the country's pro-government unions for years.

Existing bureaucratic machines routinely resist most proposed cutbacks on rules and regulations. Throughout the Zedillo administration, local and state governments have successfully fought back proposals by environmental officials to replace often unenforceable caps on pollution with incentives to reduce harmful emissions.

"The government is sincere in its attempts to deregulate but you have an entrenched bureaucracy that is pulling the other direction because it makes its living off making things more complicated," says Gordon Lee, a technical partner at Price Waterhouse in Mexico City. "Quite often government servants owe more than

their salary to the regulatory framework. Unclear or over-stringent regulations offer opportunities for corruption, particularly for the poorly paid, less well supervised officials at the local or state level. Environmental inspectors are particularly notorious for ad-hoc settlements, with about \$500 enough to win a small or medium sized business a clean bill of health."

Further problems, such as a lack of legal certainty, are caused by the vagueness of

Regulations are so badly drawn, a good lawyer can get you off

regulations, particularly in the legal sphere. "In other countries, proposed regulations are issued for comment by lawyers and accountants. Not the case in Mexico," says Mr Lee of Price Waterhouse. "So half the time, regulations are so badly drawn up that a good lawyer can get you off. That adds to uncertainty." In one such instance, Mexico's asset tax was recently ruled unconstitutional.

For its part, the Mexican government has struggled to cut down on unnecessary red tape. Some rules have been thrown out, others

have been speeded up and overlapping regulations are being rationalised.

The North American Free Trade Agreement and other trade accords have greatly simplified importing and exporting, while a 1993 reform to the country's Foreign Investment Law allows wholly owned subsidiaries of foreign companies to operate in many sectors.

State authorities like the government of Jalisco in the west of this country are making special efforts to help businessmen by introducing "one-stop stations" where a single office deals with all the regulations a company is expected to meet. Other regional governments provide varying degrees of assistance for bureaucratic paperwork. The federal government is devolving many of its regulatory functions to state governments. The Foreign and Environmental ministries have already cut down on many of their rules.

But the task is huge and progress is slow.

"Every company that comes in underestimates the amount of legal and regulatory issues they need to clear up," says Mr Lee. "That is not going to put off a big company which has experience in overseas operations and knows Mexico is a good market. But for smaller, more marginal operations, it could make a real difference."

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Monday October 28 1996

# Black trade unions take control of Johnnic

By Mark Ashurst in Johannesburg

Trade unions will today become the largest shareholders in Johnnies Industrial Corporation, the South African industrial holding company being sold to black investors by Anglo American.

The National Empowerment Consortium, comprising 25 black trade unions and business groups, is to acquire 35 per cent of Johnnic in South Africa's biggest transfer of white-owned assets to blacks. Anglo, which previously held 48 per cent, will retain 7 per cent, ceding control to the black buyers.

The consortium, which agreed in August to buy a 20 per cent tranche in Johnnic by October 28 with an option on a further 15 per cent, said the entire stake had been oversubscribed by 20 per cent. The stake is valued at R2.7bn (\$577m), or R50 a share, a 7 per cent discount to the August share price and 10 per cent below Friday's closing price of R55.

The National Union of Mineworkers will emerge as the largest shareholder with 12.9 per cent of the total stake - equivalent to 4.5 per cent of Johnnic. Five out of 10 new directors to be appointed to the Johnnic board will be from trade unions.

The cash will be drawn largely from the pension funds of trade union members, which will contribute about half of the purchase price.

The structure of the funding package is a victory for trade unions, which have battled to win control of pension funds managed by white institutions and controlled largely by white trustees.

"In the past, black and white union money has been wrapped together and fragmented across a number of pension funds controlled by company-appointed trustees," said Mr Rob Dow, chief executive of D. L. J. Plelade, the merchant bank advising the unions.

The bank had raised about R2bn from institutions, including Old Mutual and Sanlam, South Africa's two biggest insurers, and Metropolitan Life, the country's first black-controlled insurer.

However, fund managers had accepted that unions wanted greater discretion over their investments and accepted that the Johnnic sale was "part of the political process. If union talent is going to run companies, their labour constituency must be tied in at ownership level", said Mr Dow.

Mr Tommy Othman, deputy chairman of the consortium, said it would meet in a few weeks to consider appointments to the boards of Johnnic.

Analysts said that union representatives would seek directorships in the most labour intensive companies. Black business will receive 50 per cent of the consortium's stake.

The NEC's membership has shrunk from more than 50 in August to 25, as some members failed to raise cash for their bids. Mr Ramaphosa, a former leader of the National Union of Mineworkers, was last week elected chairman of the consortium.

Price pressure on European producers is easing, reports Stefan Wagstyl

**Steelmakers see end of hard times**

The steep decline in European steel prices which caught domestic steelmakers by surprise late in 1995 seems to be over. Even though demand is flat, tough production cuts have helped manufacturers drive down stock levels.

Prices have stabilised in the past two months after falls of up to 20 per cent in construction steel, 30 per cent for sheet metal and 40 per cent for some types of high-grade stainless steel. Few expect a rapid recovery in prices, but the apparent end of the downswing is increasing optimism among steelmakers for next year.

Since the summer, the price of merchant bars, used in construction, has risen about 5 per cent in Europe. Hot-dipped galvanised sheet metal, used in the vehicle industry, has risen 10 per cent.

Usinor Sacirol, the French steel group, says stocks have fallen to "minimum levels", so any rise in consumption should feed straight through to orders. "First we hope to see an increase in deliveries and then in prices," says Mr Guy Dolle, vice-president for strategy at Usinor. British Steel is said by traders to be more optimistic than at any time this year.

Although a few weeks' price data are not proof of a shift in sentiment there is little dispute that the worst seems to be over.

Steel markets are volatile, with prices swinging in line with economic cycles, often compounded by the activities of speculative stock-builders. Prices fell sharply in the early 1990s but recovered in 1993-94. Fears that growth in east Asia might

cause raw materials shortages encouraged speculative buying. Then, late last year, traders started cutting stocks, driving down prices.

Steelmakers reacted by cutting output. In the first half of 1996, production in the European Union fell 8.5 per cent to 74.3m tonnes. A cut of the same order is expected in the second half.

The cuts have been particularly severe in France and Germany, where output in the first half fell more than 9 per cent in comparison with 1995, and in Italy, where it was down 12.3 per cent. In the UK, production fell just 1.7 per cent - British Steel claims its costs are among the lowest in Europe so it can continue to make profits even with weak prices.

Usinor estimates the cuts have reduced stocks in western Europe from the equivalent of 85 days' consumption last autumn to near-normal levels of below 70 days. This has pushed down consumption in the year to date by about 3.5 per cent, compared with 1995. However, this includes the cuts in stocks. Allowing for these, the fall is about 1 per cent.

Producers expect a modest increase in consumption next year to 146m tonnes of crude steel from a forecast 140m this year, due mainly to a predicted increase in demand for steel from the motor industry. The outlook for construction steel remains patchy, with likely increases in commercial and residential building offset by continuing curbs on public spending on infrastructure.

Steelmakers' profits have fallen even faster than prices, albeit with a delay since most steel is sold at contracted prices which lag behind the open market. Many made big profits in the first quarter of 1996, although market prices were tumbling. By the same token, any recovery in the last quarter will not be fully reflected in profits until next year.

Most companies expect poor profits in the second half of 1996 followed by a moderate recovery in 1997. Usinor, which recently reported a 65 per cent drop in profits to FF833m (\$164.3m) for the first half of 1996, expects to do worse in the second half. Analysts believe it could make less than FF1bn in 1996, but see a recovery to FF1.6bn next year. This will still be well short of 1995's FF4.42bn.

In Germany, Thyssen's net profits in the year to September 30 could fall 40 per cent from last year's DM751m (\$507.4m). Krupp, which specialises in stainless steel, posted a 20 per cent fall in interim net income. For the year, the result is expected to decline up to 50 per cent from DM543m last year.

British Steel made record profits of £1.1bn (\$1.7bn) in the year to March, as a result last year's high prices. This year's profits could fall 50 per cent, say analysts. Its interim results, due next month, are eagerly awaited for the evidence they will give of market conditions.

European steelmakers' shares are roughly midway between their recent peak in mid-1995, just before steel prices started falling, and their low at the end of 1995. But this is a difficult market to call. As one trader says: "In our industry, it takes so little to move prices."

## INSIDE

**Fiat**

Profits at Fiat, the Italian vehicles group which has forecast lower earnings in its core European business, should be lifted by another strong performance by its big Brazilian subsidiary this year.

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**Bayerische Vereinsbank**

Bayerische Vereinsbank, the German banking group, lifted operating profits after provisions by 17.5 per cent to DM1.03bn (\$876.1m) in the first nine months. Mr Albrecht Schmidt, chairman, said he expected a 10-15 per cent increase for the full year.

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**Emap**

Sir John Hoskyns, chairman of Emap, the UK media and exhibitions group which last week called an extraordinary general meeting to oust two dissenting non-executive directors, has disclosed that he has been in long-running talks with them in an attempt to persuade them to stand down.

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**Fund Management**

The birth of Momentum Premier Sports Partners, the first specialist sports investment fund, reflected the growing interest among institutions in sport as an investment. The Luxembourg-based fund has earned a return of 9.7 per cent since its launch.

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**Global Investor**

Securities houses frequently have a corporate finance or underwriting relationship with the companies which their analysts cover. However, it may still come as a surprise to see just how comprehensively analysts appear to favour their own company's interests over those of their clients.

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# BP to expand in Asia and Latin America

By Robert Corzine in Shanghai

British Petroleum is turning to the growth markets of Asia and Latin America to fuel its international expansion over the next decade.

The company, which announced an investment in a \$2.5bn Chinese polyethylene joint venture last week, expected annual growth from its operations in Asia-Pacific and Latin America to be "well into double digits" over the next few years, said Mr John Browne, chief executive.

This powerful expansion would form the main engine of growth for BP over the next decade, and should propel those two regions to the point where they would account for about a quarter of the company's revenues by the early part of the next decade, added Mr Browne.

BP's programme of investments is central to the company's growth strategy in Asia, and could herald other large investments in the region as the company repositions itself in line with changes in the structure of worldwide energy and petrochemical demand.

Mr Browne said BP still expected its main traditional markets in the US and Europe to grow at annual rates of 5-8 per cent, with the US predicted to outperform Europe. But the company would need to achieve faster growth in Asia-Pacific and Latin America if it was to reach its corporate growth target of 8 per cent a year, he said.

Asia has long been seen by industry analysts as one of BP's weak spots and executives are sensitive to comparisons between its position in the region and that of Shell, the Anglo-Dutch oil group. Mr Browne said there were historical reasons why the company did not have a stronger position in the world's fastest growing energy market.

"BP started in the Middle East," he noted, while Shell's corporate roots were in Asia. "They have been here an awfully long time."

BP's Asian expansion has been hampered by factors outside its control, such as fluctuations in the political atmosphere in China, the region's largest single market, which have affected investment opportunities.

Recent investments in China began with a \$20m licensing agreement. That was followed by a \$200m petrochemical investment.

"Now we've gone to the next order of magnitude" with the Shanghai project, said Mr Browne. "That's the scale we need in order to shift our strategy in line with the world's demand shift."

Petrochemicals will form the main plank of BP's Asian strategy. But that would not preclude a move into refining. The company may use some of its chemical plants in the region to "reverse into refining" at the high end of the market, such as gasoline and jet fuel.

# Price pressure on European producers is easing, reports Stefan Wagstyl

## Steelmakers see end of hard times

The steep decline in European steel prices which caught domestic steelmakers by surprise late in 1995 seems to be over. Even though demand is flat, tough production cuts have helped manufacturers drive down stock levels.

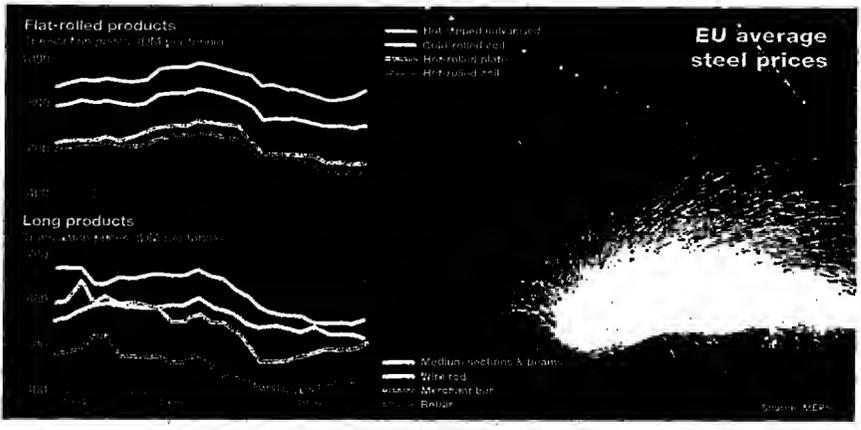
Prices have stabilised in the past two months after falls of up to 20 per cent in construction steel, 30 per cent for sheet metal and 40 per cent for some types of high-grade stainless steel. Few expect a rapid recovery in prices, but the apparent end of the downswing is increasing optimism among steelmakers for next year.

Since the summer, the price of merchant bars, used in construction, has risen about 5 per cent in Europe. Hot-dipped galvanised sheet metal, used in the vehicle industry, has risen 10 per cent.

Usinor Sacirol, the French steel group, says stocks have fallen to "minimum levels", so any rise in consumption should feed straight through to orders. "First we hope to see an increase in deliveries and then in prices," says Mr Guy Dolle, vice-president for strategy at Usinor. British Steel is said by traders to be more optimistic than at any time this year.

Although a few weeks' price data are not proof of a shift in sentiment there is little dispute that the worst seems to be over.

Steel markets are volatile, with prices swinging in line with economic cycles, often compounded by the activities of speculative stock-builders. Prices fell sharply in the early 1990s but recovered in 1993-94. Fears that growth in east Asia might



cause raw materials shortages encouraged speculative buying. Then, late last year, traders started cutting stocks, driving down prices.

Steelmakers reacted by cutting output. In the first half of 1996, production in the European Union fell 8.5 per cent to 74.3m tonnes. A cut of the same order is expected in the second half.

The cuts have been particularly severe in France and Germany, where output in the first half fell more than 9 per cent in comparison with 1995, and in Italy, where it was down 12.3 per cent. In the UK, production fell just 1.7 per cent - British Steel claims its costs are among the lowest in Europe so it can continue to make profits even with weak prices.

Usinor estimates the cuts have reduced stocks in western Europe from the equivalent of 85 days' consumption last autumn to near-normal levels of below 70 days. This has pushed down consumption in the year to date by about 3.5 per cent, compared with 1995. However, this includes the cuts in stocks. Allowing for these, the fall is about 1 per cent.

Producers expect a modest increase in consumption next year to 146m tonnes of crude steel from a forecast 140m this year, due mainly to a predicted increase in demand for steel from the motor industry. The outlook for construction steel remains patchy, with likely increases in commercial and residential building offset by continuing curbs on public spending on infrastructure.

Steelmakers' profits have fallen even faster than prices, albeit with a delay since most steel is sold at contracted prices which lag behind the open market. Many made big profits in the first quarter of 1996, although market prices were tumbling. By the same token, any recovery in the last quarter will not be fully reflected in profits until next year.

Most companies expect poor profits in the second half of 1996 followed by a moderate recovery in 1997. Usinor, which recently reported a 65 per cent drop in profits to FF833m (\$164.3m) for the first half of 1996, expects to do worse in the second half. Analysts believe it could make less than FF1bn in 1996, but see a recovery to FF1.6bn next year. This will still be well short of 1995's FF4.42bn.

In Germany, Thyssen's net profits in the year to September 30 could fall 40 per cent from last year's DM751m (\$507.4m). Krupp, which specialises in stainless steel, posted a 20 per cent fall in interim net income. For the year, the result is expected to decline up to 50 per cent from DM543m last year.

British Steel made record profits of £1.1bn (\$1.7bn) in the year to March, as a result last year's high prices. This year's profits could fall 50 per cent, say analysts. Its interim results, due next month, are eagerly awaited for the evidence they will give of market conditions.

European steelmakers' shares are roughly midway between their recent peak in mid-1995, just before steel prices started falling, and their low at the end of 1995. But this is a difficult market to call. As one trader says: "In our industry, it takes so little to move prices."

# SocGen may sell equity and property assets

By Andrew Jack in Paris

Société Générale, the French banking group, is considering selling off a significant proportion of its share and property portfolios.

The board is discussing possible reductions in its FF833bn (\$2.5bn) equity portfolio, as well as in its large property holdings, both of which should give rise to significant capital gains. The move is partly in response to Anglo-Saxon investors' suspicion that the property and equity portfolio is too large for a bank.

The asset sales could total about a third of the value of the portfolio, although details of the divestment are unlikely to be decided until next year.

The liquidation of some of the bank's portfolio would be one way to provide cash to acquire a controlling stake in CIC, the state-owned bank which is being privatised. Société Générale is believed to have offered about FF6bn for a 67 per cent stake in the

bank. Mr Marc Viénot, chairman, has defended the equity portfolio, arguing it is about the right size, is profitable and could quickly generate cash for an acquisition.

The latest discussions are believed to be prompted by growing concern from leading figures including Mr Daniel Bouton, the chief executive officer who has been appointed as Mr Viénot's successor, about the market reaction to some of its investments.

A number of French banks - as well as their German competitors - have built up substantial equity portfolios, including Paribas, the financial group, Crédit Lyonnais, the state-owned bank, made ambitious acquisitions to develop its *banque-industrie* concept, but many of these participations triggered large losses and have been hived off for sale as part of its FF135bn rescue package approved last year.

By contrast, Société Générale's portfolio has proved profitable, generating

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October 1996

£57.5 million

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# UK's Karrimor cedes control to Italian group

By Roderick Oram, Consumer Industries Editor

Karrimor, one of the leading UK brands in mountain sports equipment, is to receive a £7m (\$11m) capital injection from 21 Invest, the investment company of the Benetton and Bonomi families of Italy which will gain control.

Two acquisitions in recent years had doubled Karrimor's turnover to about £20m a year but had caused financial difficulties.

The group bought Phoenix Mountaineering, a maker of outer clothing, skiwear and tents, and acquired the trade and assets of a cycle accessories wholesaler.

"From a technical point of view, there is nothing wrong with Karrimor," said Mr Andrea Bonomi, managing director of 21 Invest. "It is the only UK company [in its field] with a complete product range."

While Karrimor has retained the loyalty of professional and amateur users, it has become increasingly uncompetitive on price.

"We stopped stocking their pannier bags five years ago because very good German ones cost less," said one London retailer.

Karrimor was founded 50 years ago by the Parsons family as a maker of cycle bags. It is now number one in the UK in rucksacks, number two in warm clothing and number three in outdoorwear and footwear.

In total, it has a 19 per cent market share, second only to Berghaus's 26 per cent. 21 Invest said new management would give Karrimor the financial and production skills to compete better against Berghaus, which is owned by Pentland Industries, the former owner of Reebok sports shoes.

Given Karrimor's small size, it will remain separate from Benetton Sportssystem, which is one of the world's largest makers of skis, tennis rackets, rollerblades and other sports equipment, with turnover of \$900m a year.

Benetton Sportssystem is a separate entity from the family's eponymous clothing empire. But Karrimor, which has only limited foreign sales, might use some Sportssystem distributors as it expanded abroad, Mr Bonomi said.

Karrimor was 75 per cent owned by the Parsons family and 25 per cent by Gartmore, the fund manager, and was chaired by Mr Mike Parsons, son of the founder.

Following the deal, he will be president and his family will retain a small stake, with 21 Invest holding the balance.

In addition to the Benetton and Bonomi families, 21 Invest's shareholders are the Seragnoli family, Banco Ambrosiano Veneto, Generali, the Italian insurer, and Deutsche Bank.

## COMPANIES AND FINANCE

## Emap head reveals talks with rebels

By William Lewis

Sir John Hoskyns, chairman of Emap, the media group which last week called an extraordinary general meeting to oust two dissenting non-executive directors, has disclosed that he has been in long running talks with them in an attempt to persuade them to stand down.

It also emerged yesterday that Mr Robin Miller, chief executive, was earlier this year officially notified that

he had been provisionally chosen to succeed Sir John as chairman.

Disclosure of Sir John's long running attempts to persuade Professor Ken Simmonds and Mr Joe Cooke - the two rebel non-executives - to stand down, and the provisional appointment of Mr Miller as the next chairman of Emap, help explain the dissidents' strong reaction to the changes to Emap's articles of association which were passed by

shareholders at July's annual general meeting.

Prof Simmonds and Mr Cooke both publicly opposed the change to the articles, which made it easier for Emap directors to be ousted and removed the requirement for there to be a minimum of five non-executive directors on the board.

The row over the articles has worsened since the annual meeting, culminating in last week's calling of an extraordinary meeting.

The two non-executives are said to have been particularly concerned that they were not told of plans to change the articles before agreeing to Mr Miller being invited, provisionally, to succeed Sir John as chairman. Emap said yesterday that "there has been no definite decision as to Sir John Hoskyns' replacement".

In 1995 Sir John proposed a rolling programme in which four non-executives would step down in succes-

sive years, culminating in his own departure at Emap's annual meeting in 1998. However Prof Simmonds and Mr Cooke have rejected Sir John's proposals because they were concerned, on behalf of shareholders, to oversee the appointment of successors to Sir John and Mr Miller.

Sir John and Mr Miller are to begin visiting institutional shareholders this week in an attempt to win support.

## Taking advantage of sport's ever-increasing commercialisation

Patrick Harverson on the growing interest among institutions in sport as an investment

The establishment of the first specialist sports investment fund may have passed almost unnoticed in the fund management industry, but the birth of the Momentum Premier Sports Partners was a reflection of the growing interest among institutions in sport as an investment.

Premier Sports Partners, a Luxembourg-registered fund, was set up by Mr Michael Goldman, a sports-mad South African who runs the Momentum hedge fund group. He believed the time was right to create a fund to take advantage of the increasing commercialisation of sport.

total value of quoted UK football clubs from just under £700m today to approaching £1bn.

For Mr Goldman, the theory behind investing in sports through a fund is a simple one. He believes there is a ready market among investors for sports funds, because so many people are enthusiastic and knowledgeable about the subject, and therefore would feel comfortable with the idea of investing in such vehicles.

The link between football clubs and supporter/investors is particularly strong. Shareholders in Marks & Spencer may shop at the store every week, but they are unlikely to know much about what is going on at the company. Yet fans of Manchester United will know an enormous amount about the team, the management, and the club. As one Scottish stockbroker said, recently, a listed football club is the only company that reports to its shareholders every week.

Mr Goldman is so convinced that sports funds can work that he plans to launch a sports unit trust directly marketable to UK investors.

In the US, where there are hundreds of specialist funds concentrating on niche sectors, the sports investor is served by only one mutual fund. The imaginatively named Sportsfund, launched this summer, is managed by Forum Financial Services of Portland, Maine. The fund concentrates at least 65 per cent of its assets in companies that derive at least half their revenues from sports.

Only a few US sports franchises are publicly quoted, notably the Boston Celtics basketball team, but there are quoted scores of sports-related companies - including Callaway, Nike, and the snowboard maker Ride.

## FUND MANAGEMENT

Mr Bradley Mitchell, a fund manager who invests widely in football clubs for Commercial Union Asset Management, says he is happy investing in clubs individually, rather than through a specialist fund.

"The problem with sports-based investment funds is that there are so few actual quoted vehicles out there," he says. "You are mainly talking about football clubs, so any fund or trust of any size would have to invest in virtually every quoted club."

This would put all of a fund's eggs in one basket, a dangerous move by any professional investor.

Mr Nick Knight is an economist at Nomura Securities who puts together the firm's index of quoted football clubs. He believes that as more clubs join the market the sector's capitalisation will grow. This will force institutions to start investing in the sector, which will push shares higher and, in turn, attract more investor interest.

He may be right. The number of quoted clubs is likely to grow from seven to about a dozen in the next year with several large clubs, among them Newcastle United and Sunderland, actively planning flotations. The newcomers will take the

## A&amp;L savers to get 250 shares

By Simon London

Savers with the Alliance & Leicester, the UK's fourth-largest building society, will receive a flat-rate allocation of 250 shares, worth an estimated £1,000 (£1,500), when it floats on the stock market next year.

Details of the Alliance's planned conversion from a mutual society to a limited company will be sent to its 3.2m savers and borrowers today.

The society is the first of three large building societies hoping to float before next summer to unveil the terms of its proposed conversion.

Halifax, the largest UK building society with 9m savers and borrowers, plans to unveil details of its float in January, the Woolwich shortly after that.

In each case savers are expected to receive shares

worth up to £1,000.

To qualify for Alliance & Leicester's free shares, savers need to have opened an investment account before December 31, 1995 and to have had a balance of at least £100 at October 14.

All qualifying savers will receive 250 shares regardless of when they opened their account or the amount they have on deposit.

The society believes this flat-rate distribution reflects the one-member, one-vote constitution of mutual societies.

The value of each share will depend on the market value of the company when it is listed on the stock exchange in April.

JP Morgan, the US investment bank advising on the float, said on the basis of current market conditions that the company could be valued at £2.8bn.

## Writs against CIA due in TV media buying row

By Raymond Snoddy

Two large ITV companies, Yorkshire-Tyne Tees Television and Granada Media, plan to issue writs this week against CIA Group, Europe's second largest independent media planning and buying organisation.

The broadcasters are trying to recover money they believe is owed to Laser sales, Granada's television sales house, by CIA Media network, CIA's main UK operator.

The action follows an independent audit of transactions between CIA and Laser by accountants KPMG which suggested, it is believed, that Yorkshire-Tyne Tees is owed about £800,000 and Granada £200,000. This is disputed by CIA, but a series of meetings have failed to produce a compromise.

An independent audit has

also been carried out on transactions between CIA and TSMS, another of the three sales houses which now sell all ITV's £1.6bn a year airtime. TSMS, which is owned by United News and Media, believes it is also owed about £1m on behalf of the ITV companies it represents, and is considering legal action.

A number of large advertisers which are CIA clients, including Commercial Union, Daewoo, Lloyds and Wrigley, are expected to receive letters this morning warning that from the January 1, Laser intends to withdraw both credit lines and recognition from CIA. TSMS may decide to take similar action against CIA, a quoted company whose worldwide billings are expected to top £1bn this year.

The row is part of what is known in the commercial

television industry as "over-trading" - defaulting on promises made in terms of audiences or share of ITV revenue promised. Another factor is "agency deals", the pooling of advertiser's money to get better discounts. There is then scope for argument about who gets what discount.

One CIA executive said what was new in the latest dispute was the level of acrimony in an increasingly competitive business.

CIA will contest any writs and its position is likely to be that as the argument is over share of ITV revenue rather than finite sums, it will be difficult to demonstrate loss.

Some ITV companies believe the method of selling airtime in the UK should be changed to follow US practice, where deals are negotiated for specific clients.

## Lloyds TSB planning £40m branch auction

By Simon London  
Property Correspondent

Lloyds TSB, the banking group, plans to raise more than £40m next month from an auction of 108 branches, bringing to £250m the amount it has raised this year from high street property disposals.

Mr Hugh Stebbing, head of

group property at Lloyds TSB, said sale and lease-backs would free capital for reinvestment in the group's core banking activities.

Although other clearing banks have pruned their branch networks, Lloyds TSB has taken the lead in releasing capital in this way.

Earlier this year it announced plans to buy

shares it did not already own in Lloyds Abbey Life, the life insurance group.

Including the latest batch, Lloyds TSB will have sold 460 branches, about 16 per cent of its 2,800. In July it raised £50m from the sale to a single buyer of a portfolio of 150 branches.

The auction, to be conducted on November 21 by

Healey & Baker, the chartered surveyors, marks the end of the current phase of the disposal programme.

However, Lloyds TSB has not ruled out further sale and leaseback deals in future.

Healey & Baker hopes the properties - on 15-year leases with upward-only rent reviews - will appeal to pri-

vate investors as well as property companies.

Guide prices range from below £100,000 for the smallest branches to over £2m for large city centre offices.

The guide prices suggest rental yields at the asking price of between 8.5 per cent and 11 per cent, depending on the size and location of the property.



## The projected rise in Asian productivity over the next 20 years will have little to do with longer working hours.

The high priority placed on education has been a major contributor to Asia's current economic success. And one reason why future business prospects in the region look so bright. If you want to share in that success, HongkongBank, staffed by local experts in every field of finance, is always ready to help.

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# Fiat looks to Brazilian unit to lead growth

By Halg Simonián  
in São Paulo, Brazil

Profits at Fiat, the Italian vehicles group which has forecast lower earnings in its core European business, should be boosted by another strong performance by its big Brazilian subsidiary this year, in spite of greater competition in the local car market.

"world car", launched in April. The vehicle has rocketed to second place in the Brazilian car market, with output having just exceeded 100,000 units since the launch.

number one by the second half of next year," he said. An estate car will be launched in February, while production of its four-door saloon will start at a new \$800m factory in Argentina early next year.

will come from core industrial operations, and the remainder from financial activities. By contrast, in 1994, when inflation was still rampant, about \$300m came from finance. Earnings that year were also boosted by a \$100m windfall from the government's short-lived decision to abolish duties on imported vehicles.

The sharp growth of the Brazilian car market, allowing Fiat to lift sales from fewer than 100,000 units in 1990 to 420,000 vehicles last year, has prompted substantial new investment by the company.

Output at Betim is now running at 2,000 units a day, up from 800 a day in 1992, and should reach 2,200 next year - making it Fiat's single biggest plant in the world.

## Weakness in chips hits Japanese groups

By Michio Nakamoto  
in Tokyo

The sharp drop in semiconductor memory prices undermined the performance of Japan's integrated electrical manufacturers in the first half, but strong demand for information and communications equipment eased problems in the memory market.

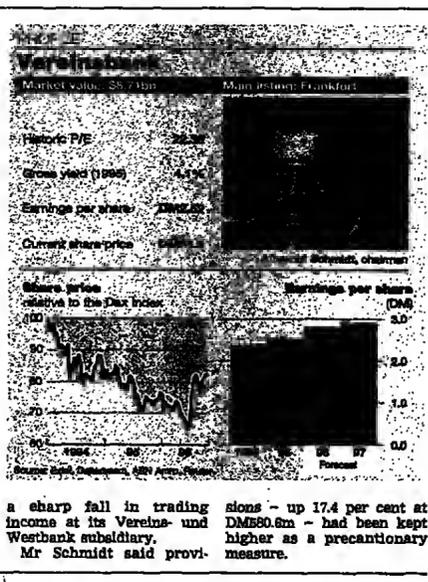
## Bayerische Vereinsbank upbeat at nine months

By Sarah Althaus  
in Frankfurt

Bayerische Vereinsbank, the German banking group, lifted operating profits after provisions by 17.5 per cent to DM1.03bn (\$876.1m) in the first nine months, and forecast strong earnings growth for the full year.

- when operating earnings rose 24 per cent - mainly because of comparisons with a particularly strong second half in 1995. Commenting on takeover speculation following the acquisition by Deutsche Bank earlier this year of a 5.21 per cent stake in the bank, Dr Schmidt said Vereinsbank was determined to retain its independence.

by a 7.7 per cent increase in net interest income, to DM3.4bn. Strong lending to the property sector - in which Vereinsbank is a market leader - slower cost growth and a sharp rise in commission earnings also helped.



All six Japanese electrical manufacturers which reported interim results last week suffered from plunging semiconductor memory prices. The price of current generation 16-megabit dynamic random access memory (DRAM) chips has fallen to as little as a quarter of what it was at the same time last year, while demand has been weak.

## Third-quarter sales climb 17% at Cemex

By Daniel Dombey  
in Mexico City

Profits at Cemex, the world's third-largest cement company, rose for the third quarter, helped by a strong performance in the group's home country of Mexico. But analysts were concerned that margins might decline in the future.

quarter, an increase of 17 per cent on the year-ago period. Operating profits jumped 28 per cent to 1.53bn pesos. "On the whole, the results were good, but they were slightly disappointing in terms of the operating margin," said Mr Gordon Lee, analyst at Deutsche Morgan Grenfell in Mexico City.

recorded for the same period last year, it was half a point below the second quarter's figure, nudged down by falling margins in operations outside Mexico. Domestic sales, which accounted for 40 per cent of total revenues for the quarter, soared to 2.9bn pesos, up 49 per cent from the previous year. The company benefited from prices higher than a year ago,

when Mexico's devaluation-inspired crisis was at its height. Cemex controls almost 60 per cent of the Mexican market. Aided by favourable prices in Asia Pacific, Cemex's Mexican operations lifted export volume to 4.6m tonnes, 36 per cent up on the third quarter of 1995.

Businesses outside Mexico performed less well, with a 2 per cent drop in sales for Spanish operations, which provide 25 per cent of total revenues, and declining margins in the US and Venezuela.

## Health business drives rise at Rhône-Poulenc

By David Owen in Paris

Rhône-Poulenc, the French chemicals and drugs group, last week reported a 13 per cent increase in third-quarter net income, buoyed by strong performance from its health and agricultural divisions. The shares rose 3 per cent on Friday to FF146.5.

## Health business drives rise at Rhône-Poulenc

By David Owen in Paris

The rise in net income, from FF669m to FF756m, was reflected in a near 10 per cent improvement in earnings per share. These climbed from FF2.12 to FF2.33. The result was achieved on sales ahead more than 4 per cent to FF20.47bn.

would have been 25 per cent higher than year-earlier levels. Mr Jean-Pierre Throuffet, finance director, said there would be a further impact on final-quarter figures, with the overall effect on 1996 net income - including the FF61m disclosed yesterday - expected to be between FF100m and FF200m. He said he did not think the recall would affect 1997 results.

from FF1.96bn to FF2.17bn, with earnings per share up just over 8 per cent from FF1.13 to FF1.63. Sales edged ahead to FF23.75bn. The group said it had divested FF6bn of non-strategic assets by September 30. It declined to reveal its net debt level at the end of the latest quarter, but said gearing stood at 63 per cent. Net interest expenses climbed from FF332m to FF582m in the third quarter, and from FF1.16bn to FF1.69bn in the first nine months.

CREDITANSTALT advertisement featuring an illustration of a person sitting at a desk with a computer monitor.

## Oracle, Netscape in tie-up

By Louise Kehoe  
in San Francisco

Oracle and Netscape, the world leaders in database and Internet software, have signed an agreement to market and distribute each other's flagship products.

## Oracle, Netscape in tie-up

By Louise Kehoe  
in San Francisco

database software as the "preferred" database to buyers of its commercial Internet Web site software - rather than as one of several options as in the past.

is expected to announce an alliance with PC manufacturers aimed at developing a low-cost PC designed to compete with PCs. Tomorrow, Sun Microsystems will introduce its "JavaStation" NC which runs software written in the company's Java programming language.

Oracle's choice of the Netscape browser appears to reflect a change of heart by Mr Ellison. Last month at an industry conference in Paris he declared that Netscape had "no chance" of winning the "browser wars" competition with Microsoft.

## US steelmaker takes to the Net

By Stephen McGooldin

US steelmaker Weirton has taken its corporate message into cyberspace in an effort to generate new export business and accept domestic orders outside established business hours.

serious inquiries, there is an extensive verification procedure for new customers. To bid for products, users need to register and complete a credit application. To register, individuals have to provide a banker's authorization, five references - preferably from other steel firms - and forward a copy of their company's latest audited financial statement by mail or fax.

orders for products for which they are then billed conventionally. The company, located in Weirton, West Virginia, says its existing customers can obtain a password by phone, while non-registered users can contact the company by e-mail with general queries.

standards for secure electronic transactions. According to Mr Patrick Stewart, Weirton director of management information services, the Web site "provides an excellent opportunity for us to improve our communications and customer service while extending our market reach".

Isle of Man advertisement for a survey on Wednesday, November 13, focusing on business, insurance, and investment topics.

Mitsui & Co., Ltd. advertisement for Fixed and Floating Rate Notes 1997, including interest rates and coupon amounts.

TENFORE advertisement for global real-time financial data, and Linnco advertisement for a one-stop brokerage connection to the world's futures, options & forex markets.

**ING BANK**  
At Home in Emerging and Capital Markets  
**ING BARINGS**

**FINANCIAL TIMES**  
**MARKETS**  
**THIS WEEK**

**ING BANK**  
ING BARINGS

Global Investor / Philip Coggan

# Analysts' appalling record

It will be no secret to the experienced global investor that analysts at securities houses have conflicts of interest. Frequently their firm may have a corporate finance or underwriting relationship with the companies they cover, or their market-making arm may simply be long of the stock.

But it may still come as some surprise to see just how comprehensively analysts appear to favour their own firm's interests over those of their clients.

A recent paper shows that the recommendations of some analysts constitute one of the market's best contrary indicators.

The paper, by US academics Roni Michaely and Kent Womack, looks at the recommendations made by ana-

lysts about initial public offerings (IPOs) which their firms have taken public. It examines 391 IPOs which came to the US market in the 1990-91 period.

US securities laws state that underwriters cannot comment on valuation and provide earnings estimates for companies until 25 days after the IPO. Analysts employed by non-underwriters also tend to wait for this period to elapse before giving a view.

Nearly all these recommendations are likely to be positive. Michaely could not recall an instance of an underwriter giving a recommendation that was anything other than "buy". Independent analysts tend not to initiate coverage of a stock unless they think it is a

"buy"; if they feel the stock is overvalued, they are likely not to cover it at all.

However, the paper found significant differences between the background to, and effects of, the recommendations. One concerns the movement in price of the stock before the recommendation is made: "Stock prices of firms recommended by underwriters go down, on average, in the 30 days before a stock is issued, while those recommended by non-underwriters go up."

Michaely and Womack are understandably cynical about this difference, suggesting that underwriters may be attempting to give a "booster shot" to the fledgling stock.

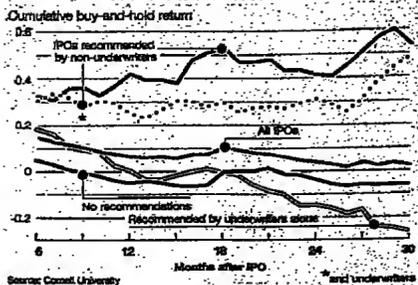
The market at least partially discounts the under-

writers' recommendations. In the immediate aftermath of the recommendation, stocks tipped by underwriters beat the market by 2.7 per cent; those endorsed by non-underwriters outperformed by 4.4 per cent.

Nevertheless, this small margin spectacularly fails to take into account the real difference in subsequent share price performance between the two categories.

The paper finds that stocks recommended solely by an analyst employed by the underwriter underperformed the market by 18.1 per cent in the two years after the IPO, while stocks recommended solely by the analysts of non-underwriters beat the market by 45 per cent over the same period and shares tipped by both

### Not recommended buying



categories outperformed by 33 per cent. Most remarkably of all, stocks tipped by the underwriters' analysts underperformed stocks which received no recommendation from anyone.

It is easy to find reasons for this appalling record. The authors point out that "it is common for a significant portion of the research analyst's compensation to be determined by the analysts' helpfulness" to the corporate finance professionals and their financing efforts.

One wonders, in view of the above analysis, why investors take the recommendations of underwriters at all seriously. Michaely and Womack argue that "because information is noisy and the market cannot always clearly distinguish between honest mistakes and information manipula-

### Total return in local currency to 24/10/96

	US	UK	FRANCE	GERMANY	SPAIN	ITALY
<b>Cash</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>Week</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>Month</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>Year</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>Bonds 3-5 year</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>Week</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>Month</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>Year</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>Bonds 7-10 year</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>Week</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>Month</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>Year</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>Equities</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>Week</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>Month</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>Year</b>	0.00	0.00	0.00	0.00	0.00	0.00

### COMPANY RESULTS DUE

## Singapore Airlines to reveal increase

Singapore Airlines is today expected to show a sharp increase in net profit for the first half to September.

Analysts say aircraft sales will more than offset higher fuel costs - supported by strong growth in passenger traffic in the period, over and above an increase in capacity.

They gave no interim forecast, but for the full year to March 1997 indicated the airline's net profit would be about \$1.10bn-\$1.19bn (\$78m-\$85m). In the year to March 1996, the airline had a profit of \$81.02bn.

Many analysts said that they would be looking closely at fuel costs, which would help to indicate second-half performance and were also more reflective of its organic operations.

Merrill Lynch has forecast a 14 per cent increase in the price the airline pays for fuel, which translates into an additional cost of \$8120m.

AFK reports from Singapore

BMW and Daimler-Benz, the German car manufacturers, are expected to report nine-month sales in the next two weeks showing a continuation of the positive trend which was established in the first half.

Analysts said the sales boost came from the relative weakness of the D-Mark, compared with a year earlier, combined with stronger-than-expected domestic new registrations. New-car registrations in the first nine-

months were up 6 per cent from a year earlier, at 2.9m.

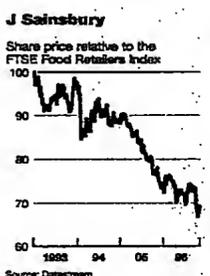
BMW is expected to report nine-month sales some time this week and Daimler-Benz on November 7. Neither company is expected to release earnings figures.

Mr Hans-Joachim Koenig, an analyst at WestLB, said the car market was now a lot stronger than had been expected at the start of the year: "We are looking at growth rates of between 5 per cent and 6 per cent in the full year, even if the second half is relatively weak as is traditionally the case."

AFK reports from Frankfurt

DSM, the Dutch chemicals group, is expected to report third-quarter net profits of between Fl 186m-Fl 234m (\$107m-\$128m) tomorrow, down from Fl 234m a year earlier.

Mr Andreas de Groot, an



J Sainsbury's interim results on Wednesday have been well flagged by the series of profit downgrades in recent months. Pessimism over the rate of like-for-like sales growth at the UK supermarket chain has led analysts to mark down expectations by about \$25m to some \$400m (\$451m).

Pilkington's half-year statement on Thursday will be closely studied to whether the UK glass manufacturer has managed to make stick the 10 per cent price rises across Europe announced last May.

The figures will be blighted by the combined impact of weak economies in continental Europe and a hard winter that halted building work in Germany.

The company has also been under pressure from car makers around the world, who are demanding

that suppliers, Pilkington among them, cut prices. But it may have gained some relief from restructuring its European building products and US automotive businesses to cut costs.

BZW, joint broker, is expecting pre-tax profits of \$75m, down from \$104m during the same 1995 period. But it expects the dividend to rise from 1.75p to 1.95p.

Body Shop, the UK cosmetics group, is expected to show a substantial gain in interim profits on Thursday. The market is forecasting pre-tax profits of about \$11m, against last year's \$3.1m, on a 15 per cent increase in sales. Much of the improvement can be attributed to the absence of last year's exceptional charges, but analysts are hoping to see an improvement to US trading.

Thames Water kicks off

the interim reporting season in the water sector tomorrow. Analysts are expecting some details about its alliance with London Electricity.

Pre-tax profits are expected to be about \$190m, a 15 per cent increase on the same period last year, giving earnings of about 43p.

RAT Industries is expected to report on Wednesday a 13 per cent increase in pre-tax profits for the nine months to September, to \$2.05bn, including some small gains from disposals. Tobacco will generate a further moderate increase, but in the US higher selling prices are likely to be offset by higher marketing expenditure. In financial services, Farmers, its US division, will be well ahead, but Eagle Star, at a low point in the UK underwriting cycle, is likely to report lower profits.

### INTERNATIONAL EQUITIES BY MARKET

## Cold calling by Deutsche Bank

If last week is anything to go by, Deutsche Telekom shares are likely to be an exciting stock to watch.

Last Monday Deutsche Telekom, the state-owned telephone utility, which is due to launch its DM15bn primary issue next month, announced a price range for its shares.

Just minutes afterwards Mr Ron Sommer and other members of the Deutsche Telekom management board watched them race up to DM39 (\$18.90) in the unofficial "grey" market.

Since Deutsche Telekom is still hoping to be able to set a price of DM30, the news of the sudden jump in the share price could hardly have augured better for the issue's prospects.

Later in the week the shares drifted lower, settling at DM37 on Tuesday, DM36 on Wednesday and about DM32.90 on Thursday evening. Dealers in Frankfurt

were then surprised the following morning to see the share had again picked up, ending the day at about DM34.20.

According to bankers in Frankfurt one of the reasons for the sharp rise in price on Friday was the issue of a covered warrant by Deutsche Bank, which is jointly-coordinating the global offer in the shares. The warrant permitted investors to buy the shares at the pre-set price.

This so-called strike price was to be the price at which the shares begin trading in Frankfurt on November 18. The warrant was due to expire on December 19, 1997.

Deutsche Bank, however, quickly withdrew the warrant and subsequently conceded that there had been some "misunderstandings". Yesterday, the bank accepted that the action is forbidden under guidelines set down by the Securities

and Exchange Commission, the US regulator. These guidelines bind members of banking consortia placing shares internationally.

The episode has not impressed marketmakers in Frankfurt. One Frankfurt banker said that the Deutsche Bank personnel involved "had all hell to pay".

A local dealer added: "Had it been anyone other than Deutsche Bank, they would have been kicked straight out of the consortium. Because it was Deutsche Bank nothing happened."

Meanwhile, Deutsche Telekom's shares are selling faster than most people had dared to expect.

The roadshows, which began last Tuesday, have travelled around Germany but have so far made only one stop abroad, in Switzerland.

Already, however, the tranche for German institu-

tional investors has been subscribed two and a half times, so concerned are the institutions that they will not get enough shares.

"After three days we can put our feet up and relax," one banker said. "The issue has already been sold."

Deutsche Bank and the other banks handling the issue hope the reception will be equally warm at other venues around the world, where the Deutsche Telekom roadshow makes its stop.

Whether that will be the case remains to be seen, especially in the US - the second most important market for Deutsche Telekom shares, which expected to take up 15 per cent of the issue.

About 65 per cent has been earmarked for the German market. Deutsche Bank has so far declined to specify how that tranche will be divided between institutions and small retail investors.

### FT/S&P ACTUARIES WORLD INDICES

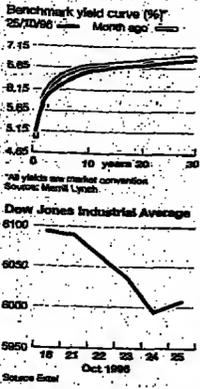
The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NetWest Securities Ltd. was a co-founder of the indices.

REGIONAL MARKETS	FRIDAY OCTOBER 25 1996					THURSDAY OCTOBER 24 1996					DOLLAR INDEX					
	US	UK	FRANCE	GERMANY	SPAIN	US	UK	FRANCE	GERMANY	SPAIN	High	Low				
Australia (78)	211.85	11.5	185.50	151.84	167.79	177.92	4.7	4.28	218.14	201.87	154.22	171.11	181.41	215.74	178.58	181.88
Austria (94)	179.99	2.9	185.96	128.70	142.21	142.11	9.5	1.98	180.92	186.59	129.09	143.22	174.93	182.04	168.39	171.80
Belgium (27)	229.59	5.5	205.85	158.05	174.88	170.54	12.4	3.91	220.89	205.80	157.81	174.96	170.88	221.96	193.45	185.87
Brazil (57)	181.84	31.8	187.07	130.28	144.02	243.73	38.2	7.78	183.87	171.43	131.25	145.64	175.12	182.59	157.74	162.83
Canada (118)	179.57	21.0	165.97	128.70	142.22	174.73	19.2	2.08	179.71	167.48	128.28	142.27	168.74	169.70	142.81	148.81
Denmark (30)	331.99	14.8	308.26	227.49	282.44	283.28	21.0	1.75	332.26	309.55	227.05	283.02	288.74	328.30	276.69	285.47
Finland (23)	219.25	17.2	202.64	157.14	173.85	193.86	23.1	2.38	220.10	205.05	157.04	174.23	171.19	220.05	171.75	172.01
France (63)	232.03	18.5	185.73	144.50	160.01	183.00	18.4	2.38	231.17	187.25	145.46	162.18	182.18	202.03	167.70	172.01
Germany (58)	179.31	8.5	166.72	128.51	142.01	142.01	16.6	1.74	179.89	167.40	128.20	142.24	142.24	181.04	164.58	165.85
Hong Kong (56)	483.23	19.5	428.14	332.01	368.88	450.84	19.5	3.32	488.40	434.53	332.78	369.22	463.90	470.58	354.67	375.88
Indonesia (27)	235.34	27.2	206.54	147.17	162.83	283.15	21.0	1.72	207.48	193.20	148.04	164.25	169.93	213.99	181.75	184.60
Ireland (27)	310.96	21.7	287.40	222.87	248.28	271.08	20.7	3.32	308.70	282.53	222.97	248.17	260.35	284.29	243.74	258.93
Italy (58)	138.81	-10.4	138.30	99.49	109.94	99.49	-1.5	0.77	140.86	131.05	100.36	111.35	100.35	134.29	107.74	108.63
Japan (48)	389.17	20.8	341.78	420.12	484.24	560.81	19.3	1.15	387.74	347.57	420.12	484.27	542.86	548.09	391.87	428.82
Korea (27)	1172.32	13.2	1083.51	940.23	928.47	1077.17	16.5	1.35	1205.88	1124.20	928.47	946.37	982.59	1062.58	943.39	988.93
Netherlands (18)	312.88	14.7	288.00	224.11	247.65	245.87	22.2	2.02	311.48	290.15	222.24	246.37	242.24	291.89	243.74	258.93
New Zealand (15)	80.22	14.0	89.84	65.10	71.83	68.55	6.0	4.00	91.83	85.86	65.59	72.78	66.76	87.74	62.75	68.85
Norway (23)	263.88	14.0	243.70	198.98	208.83	230.81	18.4	2.20	264.87	246.56	198.84	209.62	221.88	265.78	202.54	218.81
Philippines (22)	167.78	-	174.56	134.38	148.72	249.89	-	0.85	182.81	179.83	137.57	152.83	162.06	185.21	139.94	150.41
Spain (37)	384.72	-5.5	355.57	275.73	304.59	251.15	-5.4	2.24	383.78	350.55	272.29	302.10	302.10	346.21	287.74	305.81
South Africa (44)	339.27	-11.9	313.57	243.15	288.70	342.78	11.8	2.40	340.06	305.54	243.27	282.19	240.06	465.21	307.94	305.81
Sweden (48)	189.75	14.3	175.87	136.00	150.28	184.22	21.4	3.19	190.08	177.00	136.63	152.19	144.81	187.78	141.47	148.78
Switzerland (27)	369.50	27.2	358.85	284.47	314.34	387.40	26.5	2.21	365.52	358.49	282.20	313.11	305.42	360.09	284.15	293.89
Taiwan (27)	253.77	5.2	233.77	174.72	193.07	193.77	13.3	1.65	244.18	227.49	174.22	193.30	193.30	228.12	174.22	182.24
Thailand (48)	117.24	-20.3	108.38	84.03	92.85	116.05	-23.4	2.35	117.77	108.15	85.80	92.78	115.99	103.95	81.27	87.94
United Kingdom (213)	259.83	12.6	238.95	186.08	205.63	238.95	9.0	3.39	256.17	238.95	186.08	202.70	238.95	280.57	182.57	193.84
USA (821)	284.87	13.4	263.38	204.24	225.69	284.87	13.4	2.00	285.54	268.02	203.73	226.04	285.54	289.37	226.28	229.75
Americas (784)	280.85	13.9	241.06	186.85	205.69	218.28	13.9	2.08	291.44	243.57	186.56	205.67	216.76	264.86	181.17	191.98
Europe (718)	224.18	11.8	207.16	160.88	177.54	195.53	13.9	2.99	222.93	207.89	159.09	178.48	182.86	224.79	161.46	174.78
Norice (139)	387.18	22.2	371.88	241.88	267.00	299.57	23.9	2.18	388.84	373.82	240.34	266.65	288.09	389.22	281.19	293.89
Europe East (67)	184.98	1.2	184.98	142.24	150.00	184.98	1.2	0.25	184.98	142.24	150.00	184.98	184.98	184.98	142.24	150.00
Asia-Pacific (194)	183.88	2.1	169.78	131.65	145.46	142.83	8.9	2.12	184.28	171.89	131.65	142.24	142.24	177.01	131.65	142.24
North America (79)	278.86	13.8	257.55	190.72	220.70	277.72	13.7	2.05	279.20	260.12	190.72	220.70	220.70	279.20	190.72	220.70
Europe Ex. UK (50)	200.51	11.0	185.14	143.57	158.65	166.42										

MARKETS: This Week

Richard Tomkins

Last week was a relatively quiet one in US markets with little economic data to excite traders' interest. This week, however, should be enlivened by a heavy schedule of growth and inflation indicators...



Benchmark yield curve (5%) 25/10/96 Month ago

The flow of figures begins with tomorrow's publication of the third-quarter employment cost index, the Fed's preferred measure of labour costs. The consensus estimate of economists surveyed by MMS International is that the index will have risen by 0.8 per cent...

Wednesday should bring the figures for third-quarter gross domestic product, with analysts expecting a weak - and thus market-friendly - outcome. With businesses accumulating inventories in the face of weak sales, the rate of growth in real GDP is expected to have fallen from 4.7 per cent to 2 per cent.

COMMODITIES By Susanna Voyle

Oil focus falls on inventories

The oil markets will be keeping a closer watch than normal on the weekly inventory figures due to be released tomorrow and Wednesday.

The US government has been encouraging refineries to increase production - and markets are waiting to see what effect this will have.

Mr Lesley Nicholas of GNI said the focus of interest remained the heating oil and gas markets, as they have driven crude prices higher over recent weeks.

Analysts see the price for Brent Blend for December delivery - the global crude oil benchmark - stuck around the \$24-a-barrel mark, unless it is moved by sudden cold snaps.

"It looks like we are going to have relatively milder weather over the next couple of weeks and people are less keen to drive the market higher," said Mr Nicholas.

"But if there is a cold snap prices could rally again." Earlier this month Brent prices briefly broke through \$25 - an important psychological barrier - driven by high demand for refined products.

Metals experts in Beijing will be keen to discover details about the level of Chinese copper stocks and what the authorities intend to do with them. The industrial began gathering in the Chinese capital yesterday for the first day of Metal Bulletin's third China metals conference, which finishes tomorrow.

LONDON By Philip Coggan

International markets will face their monthly test in the form of the US non-farm payroll figures this week, and the UK, one of the more slavish followers of Wall Street, will be paying particular attention.

Concern about Wall Street has been one of the main factors inhibiting London this year. There were signs last week that equity investors might be locking in some profits, now that the FTSE 100 index has passed 4,000.

However, markets may get an early lift today if some of the hid rumours floating about on Friday are confirmed, with the main focus being on the regional electricity sector.

On the economic front, the main event will be the monthly monetary meeting between Mr Kenneth Clarke, the chancellor, and Mr Eddie George, the governor of the Bank of England, on Wednesday. Mr George is expected to push, once again, for a rate rise and the recent strong economic data have been going his way.

But it would be surprising if Mr Clarke gave way before the election, unless the financial markets were putting him under severe pressure.

Several leading companies are reporting numbers, including third-quarter figures from Shell and BAT Industries and interims from J. Sainsbury, Body Shop, Pilkington and Thames Water. The interim results season has passed largely without any real shocks, and investors will be looking to see if the recent economic rebound is reflected in chairman's statements.

FRANKFURT By Wolfgang Münchauer

The German markets witnessed a mood swing in the middle of last week and then saw it swing back on Friday, as senior Bundesbank officials got themselves into a middle over whether interest rates would be going down or not.

Mr Oskar Löffler, chief economist of the Bundesbank, sent bonds and equities on a downward path with a comment in a television interview that "key rates are at a historic low here and nothing more is to be expected or necessary".

Mr Issing himself appeared to soften his tone on Friday with a comment that reiterated some uncertainty after his rather blunt statements two days earlier, prompting a recovery in the market, the December bund futures contract rising from 99.18 to 99.55. Mr Issing's comments also hit the equity markets, along with other special factors.

The most important was the 25 per cent drop in the shares of SAP, the business software maker, which the markets had previously

TOKYO By Gwen Robinson

Political uncertainty and continuing concerns about the economy in the wake of the October 20 general election will most likely keep bond and equity markets moving along sharply divergent paths, at least until the expected November 7 special parliamentary session to confirm the new prime minister.

Investors will be assured of policy continuity under an administration dominated by the conservative LDP, as in the previous ruling coalition. But many fear that the party's return to power in a greatly strengthened position may slow the pace of promised deregulation and administrative reform.

By the end of last week, the Nikkei 225 average had lost \$72.33, or 4.21 per cent, from the previous week's finish to close at 20,739 and the broader-based Topix index of all first-section stocks fell 2.8 per cent. For the short term, analysts forecast that the 225 index will stay in a narrow range between 20,500 and 21,500. Over the next six months, however, analysts do not think the election significantly changes the bullish outlook.

Long-term Japanese government bonds are expected to continue on the

STOCKHOLM

Company results remain the main focus of attention in Stockholm, where the third-quarter season is now in full swing. Profits are due from leading cyclical SSAB, SCA and Electrolux; and from a number of growth stocks.

PolyGram, the Amsterdam horse faces further tests this week with statements coming from more stock market heavyweights.

DSM, Royal Dutch and KNP BT all report third-quarter figures, starting tomorrow with DSM, which has been having a tough time lately in commodity chemicals. UBS expects the third-quarter results to come in 30 per cent below last year's output.

Royal Dutch and KNP BT report on Friday.

OTHER MARKETS Compiled by Jeffrey Brown

shorter - one month, against three for Life futures - but it can lead to a slightly fraught session.

Unless the October unemployment and August trade data put up unexpected fireworks, the economic debate is going to remain in low gear. However, there was some betting among analysts last week that the Bank of France might trim its repo rate on Thursday.

Oil group Total meets institutional investors in London tomorrow. SBC Warburg moved from "buy" to "hold" on the stock last week, but Société Générale, which is hosting the occasion, remains a buyer.

Futures expiry volatility for equities is usually less marked than in London, since the Matif contract is

AMSTERDAM

Blighted last week by disappointing results from Philips and a profits warning from

notably electronics and telecoms equipment leader Ericsson.

Most analysts are going for earnings growth of around 20 per cent from Ericsson. There should be good numbers, too, from the string of financials due to report. Nordbanken and Svenska Handelsbanken weigh in on Wednesday and tomorrow, respectively.

Elsewhere in the Nordic bloc, there are results due from Den norske Bank and Nycomed. DnB puts out a third-quarter on Thursday. Drugs group Nycomed reports the same day.

BOMBAY

Indian share markets face an uncertain outlook after the wild swings sparked last week by the central bank's easing of monetary policy,

writes Tony Tassell. In the end, the BSE 30 index closed 3.1 per cent higher over the five days, but it was touch and go at times, and analysts are split on whether the rise was a temporary blip on a longer-term slide or whether there is still some upside left.

They said a flurry of first-half results this week from leading companies could lead to additional volatility. Among the companies reporting are motor companies Bajaj Auto, Tata Engineering and Locomotive, and Mahindra & Mahindra. Steel-maker Tata Iron and Steel is also expected to post interim figures.

InvestTrust, the broker, feels there is scope for a further rise in the market and that upcoming results could be the signal for renewed buying.

CURRENCIES By Simon Kuper

Sentiment hangs on release of data from the US

This week will reveal more about the state of the US economy and the likely trend of interest rates. A mountain of US economic data is due, and, with the markets expecting the Federal Reserve to maintain rates at current levels for the next few months, any new signs of inflationary pressure could change sentiment.

If the data remain favourable, the dollar could soon breach the so-called "Beutler level" of Y113.6, last reached in January 1994. The US currency closed at Y113.4 in London on Friday.

The US employment cost index comes on Tuesday. Third-quarter gross domestic product growth - expected to have slowed to an annualised 2 per cent - appears the day after, and the October non-farm payroll with aver-

age hourly earnings on Friday. The payroll figure is expected to show job growth of about 175,000, as September's surprise 40,000 fall is widely regarded as a blip.

Last week, with little US economic news until the durable goods orders figures on Friday, the dollar mainly reacted to the yen and the D-Mark. It finished the week

third-quarter GDP growth of 0.8 per cent reported on Friday - have shown economic growth accelerating rapidly.

Mr Clarke is likely to refuse. Any increase could fuel further rises in sterling, which closed at DM2.444 and \$1.604 in London on Friday.

During the week, Germany is expected to release slightly higher September industrial production data and July retail sales figures.

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FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, October 25, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

Table with columns for currency codes (e.g., US\$, DM, Yen, etc.) and their corresponding exchange rates. Includes a sub-table for 'GREECE' with various stock indices and prices.

CROSS BORDER M&A DEALS

Table listing M&A deals with columns: BIDDER/INVESTOR, TARGET, SECTOR, VALUE, COMMENT. Includes deals like C&W (UK) Bid (Canada), Hersey Foods (US), Banco Santander (Spain), etc.

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ATHENS STOCK EXCHANGE Oct 21st - Oct 25th 1996

Table showing Athens Stock Exchange performance metrics: ASE INDEX, NYSE DJ, DAX, etc., with values and percentage changes.

Advance Bank Australia Limited

US\$300,000,000 Floating Rate Notes 2000

The notes will bear interest at 5.5825% per annum for the interest period from 29 October 1996 to 28 January 1997. Interest payable value 28 January 1997 will amount to US\$45.19 per US\$100,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

BANQUE NATIONALE DE PARIS

Programme for the issuance of Debt Instruments US\$ 5,000,000 Floating Rate Notes Jan 2000 Series 72 Tranche 1

Notice is hereby given that the rate of interest for the period from October 28th 1996 to January 27th, 1997 has been fixed at 5.5825 per cent per annum. The coupon amount due for this period is USD 134.57 per cent of the interest payment due January 27th, 1997.

ALLIANCE LEICESTER

Subordinated Floating Rate Notes due 1998

For the six months 2nd October, 1996 to 2nd April, 1997, the Notes will carry an interest rate of 6.625% per annum with an interest payment of £34,343.15 per £1,000,000 Note, payable on 2nd April, 1997.

NOTICE

Pursuant to Rule 17.55(b) of the Listing Rules of the London Stock Exchange, notice is hereby given that copies of the American International Group Inc. report on Form 10-Q for the period ended June 30, 1996 are available to the public at the offices of: AIG Europe (U.K.) Limited, 120 Fenchurch Street, London EC3M 5BP.

MARKETS: This Week

EMERGING MARKETS By Farhan Bokhari

Pakistani share rally fizzles out

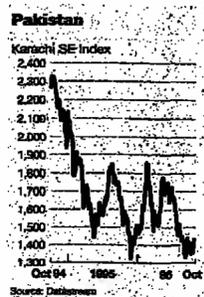
A 5 per cent rise in Pakistan's share market last week, in response to yet another devaluation of the rupee and austerity measures announced by the government, does not appear to be the start of a sustained rally.

Share prices were beginning to settle on Thursday when Karachi's KSE-100 index closed just 0.12 per cent up after two days of spectacular gains.

Many analysts are convinced the rise was largely because of short covering by traders rather than an end to investors' anxiety. The key index, even now, is down 23 per cent over the past six months. There are many who expect a further currency devaluation, on top of the cumulative 15 per cent adjustment so far this year.

Many investors are attracted to dollar deposits at local banks rather than investment in shares, especially amid growing political and economic uncertainty which is bound to cause further losses on the market.

Pakistan's relatively liberal foreign exchange policies give full freedom to individuals. They can buy dollars from local currency dealers and make deposits in local banks, without having to identify the source of their money. Equally impor-



Source: Datastream

tant are the effects of worsening economic prospects in the past two years, and concerns over the future of Prime Minister Benazir Bhutto's government.

Mr Zafar Moti, a leading stockbroker, remembers how exactly two years ago he thought of buying an island, a luxury yacht and even a helicopter. Then, the KSE-100 index was almost 900 points, or roughly 65 per cent higher than now.

"Those dreams are no more around me," he says.

Pakistan's deteriorating international trade performance has added to worries over the country's ability to service its foreign and domestic debt, which together stand at about \$51bn. During the financial year to June 1996, the trade deficit soared to just over \$3bn from \$2bn a year before. Unless last year's exports of some \$8bn rise substantially, Pakistan may not be able to cope with an expected growth of \$2.5bn by the end of its annual oil imports alone.

Given this background, many investors will be watching this week's negotiations between an IMF mission visiting Islamabad and Pakistani finance ministry officials, over the future of a suspended \$600m standby loan.

Index	Week on week movement		Month on month movement		Year to date movement	
	Actual	Percent	Actual	Percent	Actual	Percent
World (446)	158.27	-2.62	-1.58	-2.94	-1.62	+10.71
Latin America						
Argentina (22)	95.02	-2.60	-2.66	-0.30	-0.31	+2.25
Brazil (23)	249.08	-1.10	-1.82	+2.52	+1.01	+63.80
Chile (16)	199.03	-0.70	-0.70	-0.70	-0.31	+2.44
Colombia (13)	177.10	+2.23	+1.28	+6.79	+3.99	+12.86
Mexico (27)	80.52	-1.59	-1.94	-3.60	-4.28	+8.93
Peru (11)	1138.55	-9.15	-0.50	-16.43	-1.42	+89.59
Venezuela (6)	82.10	+1.62	+1.78	+9.41	+17.86	+125.78
Latin America (119)	141.82	-2.28	-1.88	-1.02	-0.72	+18.68
Europe						
Czech Rep (14)	101.38	-0.13	-0.13	-2.87	-2.75	+28.08
Greece (20)	116.22	+0.34	+0.21	-4.17	-6.41	+15.23
Poland (25)	328.22	-32.82	-9.09	-34.85	-9.80	+127.06
Portugal (10)	137.13	+0.74	+0.55	-1.06	-0.77	+20.88
South Africa (3)	137.48	-3.35	-2.35	-5.40	-3.76	+19.90
Turkey (27)	119.58	-0.87	-0.57	+9.75	+9.38	+26.79
Europe (134)	120.77	-2.25	-1.85	-3.47	-2.79	-0.76
Asia						
China (26)	45.14	-0.60	-1.31	+1.35	+3.09	+4.82
Indonesia (30)	140.42	+0.77	+0.55	-1.82	-1.35	+11.78
Korea (23)	220.00	-6.73	-5.64	-2.39	-3.53	+20.44
Malaysia (24)	267.81	-1.75	-0.69	+10.06	+3.90	+40.44
Pakistan (13)	66.87	-1.82	-2.37	-3.73	-5.81	-6.73
Philippines (18)	232.45	-18.72	-6.02	-39.99	-12.03	+33.28
Taiwan (11)	119.58	+1.62	+1.22	+2.21	+2.37	+15.59
Thailand (26)	177.65	-1.63	-0.91	-20.28	-10.24	+74.24
Asia (193)	211.79	-3.35	-1.58	-5.12	-2.36	+8.75

All indices in \$ terms, January 1 1982=100. Source: ING Baring Securities.

CAPITAL FLOWS By Manuela Saragosa

Asia faces up to investor need for transparency

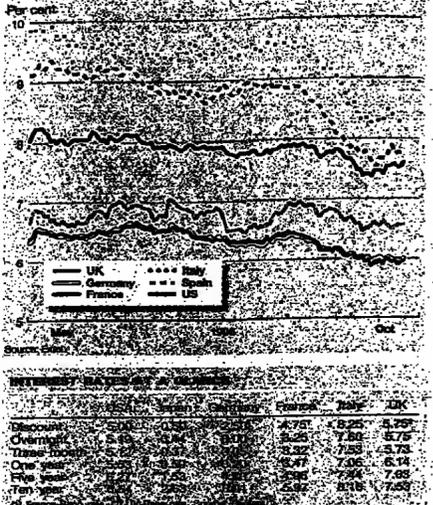
The need for greater transparency was on the agenda at the joint Asia Development Bank and World Bank sponsored conference on "Private Capital Flows: Implications for Capital Markets in Asia", last week in Bali.

About US\$104bn in private capital flows went into Asian markets last year, roughly 62 per cent of all private inflows to emerging markets. There is a need for Asia's markets to ensure these flows are sustainable if investors are to "stop putting in more money rather than pulling everything out" at the least sign of trouble, says Ms Elizabeth Morrissey, managing partner at Washington-based Kleinman International Consultants.

To do that, the region's stock markets will have to improve transparency, develop infrastructure and a large domestic investor base, and foster the independence of self-regulatory organisations.

There is little doubt that private capital inflows will increase exponentially, as ageing populations in developed countries increase the pressure on pension funds to improve their performance. As a result, pension funds

10-year benchmark bond



Source: Reuters

are bound to turn to the higher rates of return offered by Asian markets.

The question is whether Asia's stock markets will be able to promote growth and development with these capital inflows without high risk and volatility. Mr Ismail Daila, president of Washington-based Asset Management, says: "You've got to have a plumbing system all in place for when the water flows in."

Asia's capital markets vary greatly in their level of development, with east Asia taking the lead over south Asia. Levels of foreign participation also range widely, from 6 per cent in Korea to 50 per cent in Malaysia and Pakistan to more than 80 per cent in Indonesia last year.

But it is generally agreed that those that made the greatest improvements in market depth and activity received the largest capital inflows - mainly Korea, Malaysia, the Philippines, Thailand and Indonesia.

One of the biggest challenges in ensuring the sustainability of those inflows lies in improving disclosure and the enforcement of regulations. Many listed companies in Korea and Indonesia, for example, are still managed by their founders. "It is

INDEX-LINKED BONDS By Samer Iskandar

US pricing key to future performance

Index-linked UK gilts, meanwhile, have underperformed. Mr Andrew Roberts, a gilt analyst at UBS, pointed out that the spread between the real yields of Canada and the UK had narrowed by about 20 basis points, to 55 points. "And there is scope for further tightening to around 20 basis points," he added.

Mr Tim Knowles, fixed-income director at Fleming Investment Management, attributes the lack of attractiveness of UK "linkers" to their being expensive in relative terms, yielding between 3.5 and 3.75 per cent throughout the summer.

This situation has shifted demand to the other markets offering such bonds. Mr Roberts pointed out that the latest auction in New Zealand, on October 2, was roughly six times oversubscribed, and that UK investors' participation was high.

Index-linked markets are expected to benefit from US issuance, as the real yield of the new Treasuries becomes

difficult to reach the importance of corporate governance and protection of minority rights," says Mr In-Kee Hong, chairman of the Korea Stock Exchange.

The concept of "corporate democracy" is still new, and local companies are slowly learning to respect minority shareholders' rights. In the meantime, investors in the region prefer to "vote with their feet" rather than get embroiled in a company's strategy and management. "Foreign investors tend to be passive; they are not seeking shareholder influence," says Mr Philip Gray, executive chairman at HSBC James Capel Asia.

Regulators, however, appear to be aware of this. The Korean exchange, for example, is trying to promote stock option schemes for management so they have as much at stake as minority shareholders. But for foreign institutional investors, it is as important to see regulators enforcing rules as it is to see minimal government interference in the marketplace.

**N.V. De Indonésische Overzeise Bank**

US\$125,000,000 Floating Rate Notes 1997

The notes will bear interest at 6.2375% per annum for the period 23 October 1996 to 23 January 1997. Interest payable 29 January 1997 will amount to US\$1,594.03 per US\$100,000 note.

Agent: Morgan Guaranty Trust Company

**JPMorgan**

**NOTICE TO HOLDERS**

NOTICE IS HEREBY GIVEN, on behalf of each of the following issuers, that S.G. Warburg & Co. Ltd. will resign as Principal Paying Agent and Conversion Agent ("Agent") where applicable on the following issues:

with effect from 27th November, 1996: **DEKONS GROUP (CAPITAL) PLC £68,000,000 6 1/4 per cent Convertible Guaranteed Bonds 2002**

with effect from 12th December, 1996: **CHANDRA GROUP PLC £73,000,000 11 1/4 per cent Bonds 2019**

with effect from 12th December, 1996: **HALIFAX BUILDING SOCIETY £20,000,000 11 1/4 per cent Subordinated Bonds 2014**

with effect from 12th December, 1996: **PRUDENTIAL FINANCE B.V. £150,000,000 9 1/4 per cent Guaranteed Bonds 2007**

with effect from 27th November, 1996: **all holders of Corporate and Bonds of the above-mentioned issuers should note that the new Agent will be Morgan Guaranty Trust Company of New York, 60 Victoria Embankment, London EC4Y 0DP**

28th October, 1996

**SOCIETE GENERALE**

USD 372,000,000 SUBORDINATED FLOATING RATE NOTES DUE 1998

ISIN CODE: GB0048179654

For the period October 25, 1996 to 10 April 25, 1997 the notes bear interest at 6.5715% p.a.

Next payment date: April 25, 1997

Amount: US\$ 31,534.78 for the denomination US\$ 1,000,000

THE PRINCIPAL PAYING AGENT SOCIETE GENERALE BANK & TRUST LUXEMBOURG

**Chase Manhattan Corporation**

U.S. \$10,000,000 Floating Rate Subordinated Notes due 1997

In accordance with the provisions of the Notes, interest is hereby given that the Notes will carry an interest rate of 5 1/8% per annum for the period 16th October 1996 to 24th January 1997 with a coupon amount of U.S. \$48.54 for the U.S. \$10,000,000 denomination and U.S. \$11.54 for the U.S. \$1,000,000 denomination and will be payable on 24th January 1997, subject to the provisions of the Notes.

Bankers Trust Company, London Agent Bank

**SWEDBANK (Sparbank Sverige AB)**

US\$150,000,000 Undated Subordinated Floating Rate Notes

Notice is hereby given that the notes will bear interest at 7.38281% per annum from 22 October 1996 to 22 April 1997. Interest payable on 22 April 1997 will amount to US\$73.24 per US\$100,000 note.

Agent: Morgan Guaranty Trust Company

**SWEDBANK (Sparbankernas Bank)**

Subordinated Floating Rate Notes due 1997

Notice is hereby given that for the three months interest period from October 28, 1996 to January 28, 1997 the notes will carry an interest rate of 5.8125% per annum. The interest payable on the relevant interest payment date, January 28, 1997 will be U.S. \$379.54 and U.S. \$48.54 respectively for holders in denominations of U.S. \$250,000 and U.S. \$10,000. The sum of U.S. \$48.54 will be payable per U.S. \$10,000 principal amount of Registered Notes.

By: The Chase Manhattan Bank, London, Agent Bank

October 28, 1996

**LEGAL NOTICES**

In the High Court of Justice Chancery Division Companies Court

No 105747 of 1996

IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on 10th October 1996 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of the capital of the above named Company from £40,000,000 to £6,220,467.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Companies Court Registrar at the Royal Courts of Justice, Strand, London WC2A 2LL on 6th November 1996.

ANY creditor or shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of capital should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requesting the same by the under-mentioned solicitors on payment of the regulated charge for the same.

DATED this 24th day of October 1996.

White Septis  
1 Fleet Place  
LONDON EC4M 7WS  
(Tel: MAW67293/CCI 25992.1)

Solicitors for the above named Company

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1 Fleet Place  
LONDON EC4M 7WS  
(Tel: MAW67293/CCI 25992.1)

Solicitors for the above named Company

Denomination	Annual Int.	Maturity	Coupon	Price	Yield	Launch spread bp	Book name
US DOLLARS							
Sidderstedt LP	300	Nov 1999	5.50%	95.13	5.89%	+100B	Yanacchi (US/Europe)
Signa Finance Corp	250	Nov 2002	6.50%	95.52	6.58%	+100B	US/Europe
US International Finance	200	Nov 2002	6.25%	96.57	6.64%	+120B	US/Europe
Veracruz	200	Nov 2000	6.25%	92.25	6.38%	+110	US/Europe
US/Spain	150	undated	(4)	95.39			US/Europe
US/Spain/Holland	75	Dec 2000	6.1%	95.82	6.29%	+75	US/Europe
Bayreuther Landbank	100	Nov 2001	6.50%	100.00	6.50%	+130B	US/Europe
Federal Farm Credit Bank	500	Nov 1999	6.44%	100.00	6.44%	+30B	US/Europe
NYNY	500	Nov 2001	6.1%	98.28	6.1%	+100B	US/Europe
ANZ Farm Credit	500	Nov 2001	6.25%	99.54	6.21%	+100B	US/Europe
Bankers Trust Co	200	Nov 2001	6.1%	100.00	6.1%		US/Europe
Bank of Western Australia	100	Nov 2001	6.1%	99.59	6.1%		US/Europe
Bank of New Zealand	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Queensland	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of South Africa	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Victoria	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Western Australia	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of New Zealand	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Queensland	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of South Africa	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Victoria	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Western Australia	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of New Zealand	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Queensland	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of South Africa	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Victoria	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Western Australia	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of New Zealand	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Queensland	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of South Africa	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Victoria	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Western Australia	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of New Zealand	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Queensland	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of South Africa	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Victoria	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Western Australia	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of New Zealand	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Queensland	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of South Africa	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Victoria	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Western Australia	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of New Zealand	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Queensland	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of South Africa	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Victoria	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Western Australia	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of New Zealand	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Queensland	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of South Africa	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Victoria	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Western Australia	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of New Zealand	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Queensland	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of South Africa	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Victoria	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Western Australia	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of New Zealand	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Queensland	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of South Africa	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Victoria	100	Nov 2001	6.1%	99.78	6.1%	+100B	US/Europe
Bank of Western Australia	100	Nov 2001	6.1%	99.78	6.		

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Table with columns: Oct 25, Closing mid-point, Change on day, Bid/offer spread, Day's high/low, One month %PA, Three months %PA, One year %PA, Bank of England %PA. Rows include Europe (Austria, Belgium, Denmark, etc.), Americas (Argentina, Brazil, Canada, etc.), and Pacific/Africa (Australia, Hong Kong, India, etc.).

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Table with columns: Oct 25, Closing mid-point, Change on day, Bid/offer spread, Day's high/low, One month %PA, Three months %PA, One year %PA, JP Morgan %PA. Rows include Europe (Austria, Belgium, Denmark, etc.), Americas (Argentina, Brazil, Canada, etc.), and Pacific/Africa (Australia, Hong Kong, India, etc.).

WORLD INTEREST RATES

Table with columns: October 25, Over night, One month, Three months, Six months, One year, Lomb. Lomb. Dis. Repo rate. Rows include Belgium, France, Germany, Ireland, Italy, Netherlands, Norway, Spain, Sweden, Switzerland, UK, US, and various Eurozone countries.

CROSS RATES AND DERIVATIVES

Table with columns: Oct 25, Bid, Ask, DM, SF, Yen, etc. Rows include Belgium, Denmark, France, Germany, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK, Canada, US, and Japan.

FT GOLD MINES INDEX

Table with columns: Oct 25, 28/29/96, Mid cap, Small cap, % change, % of total, etc. Rows include Gold Mines Index (31), Regional indices (Africa, Australia, North America), and FTSE International.

EURO CURRENCY INTEREST RATES

Table with columns: Oct 25, Short term, 7 days notice, One month, Three months, Six months, One year. Rows include Belgium, Denmark, D-Mark, Dutch Guilder, French Franc, etc.

EXCHANGE CROSS RATES

Table with columns: Oct 25, Bid, Ask, DM, SF, Yen, etc. Rows include Belgium, Denmark, France, Germany, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK, Canada, US, and Japan.

FT GUIDE TO WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

US TREASURY BILL FUTURES (MM \$1m points on 100%)

Table with columns: Dec, Mar, Jun, Open, Settle price, Change, High, Low, Est. vol, Open int.

UK INTEREST RATES

Table with columns: Oct 25, Over night, 7 days notice, One month, Three months, Six months, One year. Rows include Interbank Sterling, Bank Bills, Local authority debts, Discount Market debts.

LONDON MONEY RATES

Table with columns: Oct 25, Over night, 7 days notice, One month, Three months, Six months, One year. Rows include Interbank Sterling, Bank Bills, Local authority debts, Discount Market debts.

US TREASURY BILL FUTURES (MM \$1m points on 100%)

Table with columns: Dec, Mar, Jun, Open, Settle price, Change, High, Low, Est. vol, Open int.

PHILADELPHIA SE 6/8 OPTIONS (21.250 cents per pound)

Table with columns: Strike, Nov, Dec, Jan, Nov, Dec, Jan. Rows include 1.580, 1.590, 1.600, 1.610, 1.620.

BANK OF ENGLAND TREASURY BILL TENDER

Table with columns: Oct 25, Oct 18, Oct 25, Oct 18. Rows include Bills on offer, Total applications, Total accepted, etc.

UK GILTS PRICES

Table with columns: Issue Date, Price, Yield, etc. Rows include 10-year, 15-year, 20-year, 30-year gilts.

BASE LENDING RATES

Table with columns: Bank Name, Rate, %.

Other Fixed Interest

Table with columns: Issue Date, Price, Yield, etc. Rows include various fixed interest investments.

RIGHTS OFFERS

Table with columns: Issue price, Amount paid, Landed, etc. Rows include various rights offers.

Advertisement for FT Financial Times Conference: The Petrochemical Industry - What Next: Old World/New World. London, 21 & 22 November 1996. Includes list of speakers and registration details.

STOCK INDICES

Table with columns: Oct 25, Oct 24, Oct 23, Oct 22, Oct 21, High, Low. Rows include FTSE 100, FTSE 250, FTSE 1000, etc.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

Table listing companies in the Alcoholic Beverages sector with columns for company name, price, and change.

BANKS, MERCHANT

Table listing companies in the Banks, Merchant sector.

BANKS, RETAIL

Table listing companies in the Banks, Retail sector.

BREWERIES, PUBS & REST

Table listing companies in the Breweries, Pubs & Rest sector.

BUILDING & CONSTRUCTION

Table listing companies in the Building & Construction sector.

BUILDING MATS. & MERCHANTS

Table listing companies in the Building Mats. & Merchants sector.

CHEMICALS

Table listing companies in the Chemicals sector.

CHEMICALS - Cont.

Table listing companies in the Chemicals sector (continued).

DISTRIBUTORS

Table listing companies in the Distributors sector.

DIVERSIFIED INDUSTRIALS

Table listing companies in the Diversified Industrials sector.

ELECTRICITY

Table listing companies in the Electricity sector.

ELECTRONIC & ELECTRICAL EQPT

Table listing companies in the Electronic & Electrical Eqpt sector.

ENGINEERING, VEHICLES

Table listing companies in the Engineering, Vehicles sector.

EXTRACTIVE INDUSTRIES

Table listing companies in the Extractive Industries sector.

HOUSEHOLD GOODS

Table listing companies in the Household Goods sector.

INSURANCE

Table listing companies in the Insurance sector.

INVESTMENT TRUSTS

Table listing companies in the Investment Trusts sector.

INVESTMENT TRUSTS - Cont.

Table listing companies in the Investment Trusts sector (continued).

INVESTMENT TRUSTS - SPLIT CAPITAL

Table listing companies in the Investment Trusts - Split Capital sector.

ELECTRONIC & ELECTRICAL EQPT - Cont.

Table listing companies in the Electronic & Electrical Eqpt sector (continued).

ENGINEERING

Table listing companies in the Engineering sector.

EXTRACTIVE INDUSTRIES - Cont.

Table listing companies in the Extractive Industries sector (continued).

FOOD PRODUCERS

Table listing companies in the Food Producers sector.

GAS DISTRIBUTION

Table listing companies in the Gas Distribution sector.

HEALTH CARE

Table listing companies in the Health Care sector.

HOUSEHOLD GOODS - Cont.

Table listing companies in the Household Goods sector (continued).

INSURANCE - Cont.

Table listing companies in the Insurance sector (continued).

INVESTMENT TRUSTS - Cont.

Table listing companies in the Investment Trusts sector (continued).

INVESTMENT TRUSTS - SPLIT CAPITAL - Cont.

Table listing companies in the Investment Trusts - Split Capital sector (continued).

INVESTMENT TRUSTS - SPLIT CAPITAL - Cont.

Table listing companies in the Investment Trusts - Split Capital sector (continued).

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Table listing companies in the Investment Trusts - Split Capital sector (continued).

INVESTMENT TRUSTS - SPLIT CAPITAL - Cont.

Table listing companies in the Investment Trusts - Split Capital sector (continued).

By meeting customer needs, Rockwell has become a world leader in components and systems for cars, trucks and trailers.



IRV TRUSTS SPLIT CAPITAL - Cont.

Table with columns: Name, Price, Dividend, Yield, etc. for various trusts.

OTHER INVESTMENT TRUSTS

Table listing other investment trusts with their respective financial details.

INVESTMENT COMPANIES

Table listing investment companies and their performance metrics.

LEISURE & HOTELS

Table listing leisure and hotel companies.

LEISURE & HOTELS - Cont.

Table listing leisure and hotel companies (continued).

LIFE ASSURANCE

Table listing life assurance companies.

MEDIA

Table listing media companies.

OIL EXPLORATION & PRODUCTION

Table listing oil exploration and production companies.

OIL, INTEGRATED

Table listing integrated oil companies.

OTHER FINANCIAL

Table listing other financial companies.

PAPER, PACKAGING & PRINTING - Cont.

Table listing paper, packaging and printing companies (continued).

PHARMACEUTICALS

Table listing pharmaceutical companies.

PROPERTY

Table listing property companies.

PROPERTY - Cont.

Table listing property companies (continued).

RETAILERS, FOOD

Table listing retailers and food companies.

RETAILERS, GENERAL

Table listing general retailers.

SUPPORT SERVICES

Table listing support services companies.

TELECOMMUNICATIONS

Table listing telecommunications companies.

TEXTILES & APPAREL

Table listing textiles and apparel companies.

TOBACCO

Table listing tobacco companies.

TRANSPORT

Table listing transport companies.

WATER

Table listing water companies.

AIM - Cont.

Table listing AIM companies (continued).

AMERICANS

Table listing American companies.

CANADIANS

Table listing Canadian companies.

SOUTH AFRICANS

Table listing South African companies.

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service... FT Share Service... FT Free Annual Reports Service... FT Company Focus / Focus Plus...



FT MANAGED FUNDS SERVICE

Offshore Funds

FT Cityline Unit Trust Prospectus dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 45p/minute... International access available by subscription only.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

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M & G (Guernsey) Ltd

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Small International (Guernsey) Ltd

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LET Asset Management Ltd - Dublin

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Bermuda Bank Managers (Guernsey) Ltd

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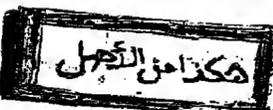
Table with columns: Fund Name, Value, etc.

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Shouldn't your company spend less on hotel bills? ForTE Posthouse advertisement with logo and contact info.



Offshore Funds and Insurances

FT Managed Funds Service. FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 6 digit code listed below. Calls are charged at 45p/minute cheap rates and 50p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

LUXEMBOURG (REGULATED)

Main table listing various offshore funds and insurance products, including categories like Luxembourg (Regulated), Offshore Funds, and Insurance. Each entry includes fund names, descriptions, and financial data.

OFFSHORE INSURANCES

Table listing offshore insurance products, including company names, policy types, and contact information.

LUXEMBOURG (REGULATED)

Table listing regulated Luxembourg funds, including fund names, descriptions, and financial data.

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

FT Cyteline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 45p/minute cheap rate and 50p/minute at all other times. International access available by subscription only. For more details call the FT Cyteline Help Desk on (44 171) 678 4376.

Main table listing various fund categories such as Global, UK, and Offshore funds, including fund names, codes, and prices.

Advertisement for Imperial Cancer Research Fund featuring a photo of Zoe Lister-Jones and the text 'Every day, we help thousands of people like Zoe fight cancer.'

OTHER OFFSHORE FUNDS

Table listing other offshore funds, including fund names, codes, and prices.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

Table of stock market data for Europe, including countries like Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, Switzerland, and the UK. Columns include stock names, prices, and changes.

ASIA

Table of stock market data for Asia, including countries like Hong Kong, Japan, Korea, Malaysia, Singapore, Taiwan, and Thailand. Columns include stock names, prices, and changes.

AMERICA

Table of stock market data for America, including Canada and the United States. Columns include stock names, prices, and changes.

AFRICA

Table of stock market data for Africa, including South Africa. Columns include stock names, prices, and changes.

INDEXES

Table of various stock market indices, including Dow Jones, Nikkei, and others, with their respective values and changes.

INDICES

Table of various stock market indices, including Dow Jones, Nikkei, and others, with their respective values and changes.

US INDICES

Table of US stock market indices, including Dow Jones, S&P 500, and others, with their respective values and changes.

ASIA

Table of stock market data for Asia, including countries like Hong Kong, Japan, Korea, Malaysia, Singapore, Taiwan, and Thailand. Columns include stock names, prices, and changes.

AMERICA

Table of stock market data for America, including Canada and the United States. Columns include stock names, prices, and changes.

AFRICA

Table of stock market data for Africa, including South Africa. Columns include stock names, prices, and changes.

Advertisement for Peregrine Fixed Income, featuring an owl and text: 'Fixed on Asian Income. Peregrine has the largest team of professionals dedicated to the origination and distribution of Asian fixed income securities.'

INDEXES

Table of various stock market indices, including Dow Jones, Nikkei, and others, with their respective values and changes.

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Table of stock market data for Africa, including South Africa. Columns include stock names, prices, and changes.

INDEX FUTURES

Table of index futures, including CAC-40, DAX, and others, with their respective values and changes.

US INDEXES

Table of US index futures, including Dow Jones, S&P 500, and others, with their respective values and changes.

ASIA

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AFRICA

Table of stock market data for Africa, including South Africa. Columns include stock names, prices, and changes.

NEW YORK STOCK EXCHANGE PRICES

Main table of stock prices with columns for stock symbols, prices, and changes. Includes sub-sections for 'D', 'G', 'H', 'I', 'J', 'K', 'L', 'M', 'N', 'O', 'P', 'Q', 'R', 'S', 'T', 'U', 'V', 'W', 'X', 'Y', 'Z'.

Advertisement for Hewlett-Packard with the slogan 'Vault ahead. If the business decisions are yours, the computer system should be ours.' Includes the HP logo and website URL.

4 pm close October 28

NYSE PRICES

Table of NYSE stock prices including columns for stock name, price, and change. Includes sub-sections for 'Continued from previous page' and 'T'.

Table of NYSE stock prices including columns for stock name, price, and change. Includes sub-sections for 'U' and 'X-Y-Z'.

Table of NYSE stock prices including columns for stock name, price, and change. Includes sub-sections for 'V' and 'W'.

NASDAQ NATIONAL MARKET

4 pm close October 28

Table of NASDAQ stock prices including columns for stock name, price, and change. Includes sub-sections for 'A' through 'Z'.

Table of NASDAQ stock prices including columns for stock name, price, and change. Includes sub-sections for 'A' through 'Z'.

Table of NASDAQ stock prices including columns for stock name, price, and change. Includes sub-sections for 'A' through 'Z'.

AMEX PRICES

Table of AMEX stock prices including columns for stock name, price, and change.

Table of AMEX stock prices including columns for stock name, price, and change.

Table of AMEX stock prices including columns for stock name, price, and change.

Advertisement for Financial Times featuring the headline 'Have your FT hand delivered in time' and 'Gain the edge over your competitors by having the Financial Times delivered to your home or office every working day.'

FT GUIDE TO THE WEEK

MONDAY 28

EU tackles Helms-Burton

EU foreign ministers in Luxembourg try to overcome Danish opposition to the proposed legal base for EU-wide retaliation against the US Helms-Burton law...

Dole looks to California

With President Bill Clinton up to 20 points ahead of him, Bob Dole, the Republican challenger, makes a final, desperate pitch in California during the last full week of the campaign...

Beef support plan talks

EU farm ministers, deeply divided over plans to support beef farmers and to ease pressure on the beef market, meet in Luxembourg...

Falklands oil licences

The Falkland Islands government announces in London the winning bidders for oil licences in the waters around the islands...

Drugs session opens

Criminal justice systems and their handling of drug cases will be the main focus of the annual session of the International Narcotics Control board...

Asia-Pacific defence forum

Defence officials of 19 Pacific Rim countries and the EU meet in Tokyo (to Oct 31). It is the first such meeting and



On Thursday, Helmut Kohl will have served 5,145 days to become Germany's longest-serving chancellor since the second world war

comes under the Asean Regional Forum, whose three largest members are the world's top defence spenders - the US, China and Japan...

Leghari in Kazakhstan

Farooq Leghari, the president of Pakistan, arrives in the central Asian republic of Kazakhstan on a three-day official visit...

Queen visits Bangkok

Queen Elizabeth II and the Duke of Edinburgh arrive in Bangkok for a five-day state visit as guests of King Bhumibol and Queen Sirikit...

FT Surveys

Swiss Banking; Mexico.

Public holidays

Cyprus, Czech Republic, Greece, Ireland, New Zealand, Syria.

TUESDAY 29

Auction of Nazi loot

The MAK-Austrian Museum of Applied Arts in Vienna is the scene of an auction by Christie's of 878 works of art looted by the Nazis...

Booker Prize announced

The winner of this year's £20,000 Booker Prize for Fiction is announced in London, with Graham Swift the overwhelming favourite...

Summit in Azores

Portugal's socialist prime minister, António Guterres, and his centre-right

Spanish counterpart, José Maria Aznar, meet in the Azores islands for their first bilateral summit meeting since their respective general election victories...

FT Surveys

Northern Ireland; Netherlands.

Public holiday

Turkey.

WEDNESDAY 30

Advani in bribe hearing

Lal Krishan Advani, who resigned as president of India's Bahujan Samaj Party after being charged in January with receiving illegal bribes...

Money laundering seminar

A one-day seminar on the prevention of money laundering takes place in Zurich. The seminar, organised by the university of St Gallen...

Southern cone trade talks

Government and business leaders from Latin America's southern cone meet in the Brazilian city of Florianopolis to discuss trade issues in the region...

Saleroom

What is regarded as the finest collection of clocks to appear on the market in many decades will be auctioned at Christie's in New York...

FT Survey

Polish Service Industries.

THURSDAY 31

Kohl visits Japan

Helmut Kohl, the German chancellor, begins his fifth trip to Japan, a two-day visit which is designed to improve traditionally good relations with Germany's biggest trading partner in Asia...

Rwanda genocide trial

The first trial of a suspect accused of taking part in the genocide which left more than 500,000 Tutsis and moderate Hutus dead in Rwanda is to open in Tanzania...

Golf

World Open championship, Atlanta, US (to Nov 3).

Public holidays

Germany, Ivory Coast Republic, Slovenia, Taiwan.

FRIDAY 1

Bangladesh test of power

Bangladesh's parliament begins its autumn session in what is likely to prove more than a mere test of the

balance of power between the newly governing Awami League and the opposition Bangladesh Nationalist Party. Among the issues expected to be discussed is the repeal of a 1975 indemnity to those involved in a military coup...

FT Survey

Jordan.

Public holidays

All Saints Day or Day of the Dead in Roman Catholic countries; although several celebrate it on Saturday.

SATURDAY 2

Paris library opens

France's vast new national library opens. La Bibliothèque nationale de France or, as it is more popularly known, La Très Grande Bibliothèque - architecture's answer to France's Le Train à Grande Vitesse - fields a staff of 1,200 and boasts 12m books...

SUNDAY 3

Romanians go to the polls

Romania holds its third parliamentary and presidential elections since 1989. Following its success in local elections, the Democratic Convention, a centre-right coalition, has its strongest chance yet of defeating the Party of Social Democracy...

Elections in Yugoslavia

Voters go to the polls in Yugoslavia, which now consists of Serbia and Montenegro. The election is for the 138-seat lower chamber of the federal parliament, the republic assembly in Montenegro, and local authorities in Serbia...

Athletics

New York marathon.

Public holiday

Maldives.

Compiled by Simon Strong. Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Statistics to be released this week

Table with columns: Day Released, Country, Economic Statistic, Median Forecast, Previous Actual, Day Released, Country, Economic Statistic, Median Forecast, Previous Actual. Lists various economic indicators for countries like Japan, Canada, Sweden, Japan, UK, US, Canada, Italy, US, Spain, US, France, Denmark, Japan, Germany, Norway, US, Netherlands, Canada.

Other economic news

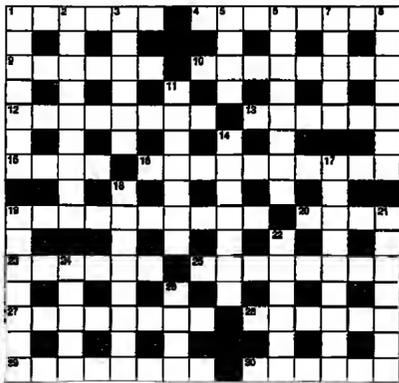
Monday: Figures due this week are expected to show German industrial production grew in September after stagnating in July... Tuesday: UK consumer credit figures are forecast to show personal borrowing was weaker in September than in August... Wednesday: US GDP figures are expected to confirm economic growth slowed in the third quarter... Thursday: The French unemployment rate is expected to have risen slightly last month... Friday: US non-farm payroll numbers are expected to show a rise in jobs growth... Saturday: The US NAPM index is forecast to show no significant inflationary pressures... Sunday: UK purchasing managers' index should show a continued recovery in industry.

ACROSS

- 1 A news broadcast with right to reply (6)
4 Building material for many on a Greek island (8)
9 Frank is able - and proved it (6)
10 Game that leaves one cold (8)
12 A piece from the Financial Times about Steptoe and Son? (8)
13 Go through a new recipe (6)
15 It's about time to revise (4)
16 Foreign money - examine found in order (10)
19 A vehicle drawn up in accordance with the law (10)
20 Hitch horse to pole (4)
23 Is able somehow to get safely down to rock-bottom (8)
25 Beat this for a political slogan (8)
27 The kindly feeling of its beneficiaries? (8)
28 Wahoo's deceptive appearance (8)
29 Protection of a financial asset (8)
30 Set of six texts put out around the east (6)

DOWN

- 1 Chief opponent out of reach (4,3)
2 Excitement as tension explodes (9)
3 Variation in game puzzles people (6)
5 I rose to receive the king - a terrible paroo (4)
6 The Christian defence against vampires? (8)
7 Bearing the right number (6)
8 Oriental nets are cast differently (7)
11 Bag for something nice to follow in French (7)
14 A denigrator is at the door (7)
17 In agreement? Not I, for one (5)
18 He gives notice (8)
19 Alterations in the bell-ringer's programme (7)
21 Habit of weapon-carrying chap (7)
22 Wild herb found around Virginia (6)
24 One involved in unusual cost was philosophical (6)
26 Plan shows parking place (4)



MONDAY PRIZE CROSSWORD No.9,210 Set by DANTE

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and one runner-up prize of £50 Pelikan vouchers will be awarded. Solutions by Thursday November 7, marked Monday Crossword 9,210 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday November 11. Please allow 28 days for delivery of prizes.

Name: Address:

Winners 9,198: Ann Caygill, Kenton, Newcastle upon Tyne; G. Hanscomb, London W8; Miss D. Holt, Kirkham, Preston; W.R. Lees, Canterbury, Kent; Karen Lonsdale, London SW11; S. Walkley, Woodmarket, Leics.

Solution 9,198: WAITRESSES BEADY LIT E A K E A S N A P I V Y S P I O R E B O O A M I A M O M I S S I O N B O R N E M S W N D I T U I U G E S S E M E N T Y T A A S P E R H M E T I O U S P I E A A W P O I L I N G C A N B E R R A T T A S I S I F E E N S U R E D I S A B L E N E I I O Z H O T T O U R I O H I N D I C E M T

Advertisement for Lombard Business Finance. Text: 'Who is NUMBER 1? Simple for all types of asset finance, it has to be Lombard. 0800 502 402. Lombard Business Finance. JOTTER PAD'.